Boots Group PLC
Annual Report and Accounts 2004

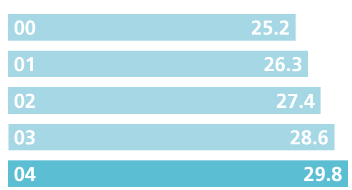
This isn’t the first time we’ve talked about change in our annual report. For the last two years, we’ve told you about the need to move the company forward, and some important steps we’ve taken. But in 2003/04, the pace of change within Boots accelerated dramatically. Since last year, we have a new leadership team, and senior management structure. We’ve reduced the head office workforce by almost a third. We’ve launched new-format stores, including 19 on the edge of town. We’ve significantly reduced prices on around 2,000 products. We’ve made rapid progress with developing an entirely new store-friendly supply chain. We’ve transformed our IT capability through an innovative outsourcing deal. And these, as you’ll see, are just the edited highlights. So, all-new Boots? Well, up to a point. But, at the same time, it’s fair to say that we’ve been going back to our roots. Since the days of Jesse Boot, this company has been a part of everyday life for millions of people. It has been well liked and trusted, above all, for its expertise in healthcare. And it has been successful by getting the retailing basics right. In those respects, nothing has changed.

Chairman's statement

Sir Nigel Rudd

'This is my first report to you since taking over as chairman from John McGrath in September, and I'm happy to be able to open my account on a positive note. Against the background of a business undergoing major change, we ended the year with another quarter of strong sales growth, our seventh in succession. And in almost every area of our business, especially in our stores, the changes initiated by the new executive team have started to make a visible difference. Above all, though, my optimism is founded on a powerful sense of the huge potential still to be tapped within Boots. We have a fantastic business; we operate in exciting growth markets; and, from top to bottom, we have great people. Having met many of them on my travels during the year, I believe their energy, enthusiasm and expertise are the key differentiating factors that, together with continuing investment, will give us the edge going forward.'

***Total operating profit**
before exceptional items £m



Dividends
pence

***Turnover**
including share of joint ventures £m

***Restated for FRS5 application note G (revenue recognition)**

Results and shareholder returns

Our results for 2003/04 suggest that our customers are continuing to respond positively to our efforts aimed at providing them with better value and improved convenience. Boots The Chemists (BTC) traded strongly throughout the year, recording increased sales in every quarter; and, for the second successive year, our performance over Christmas was excellent, up by a further 5.1%.

By refocusing on healthcare, the traditional cornerstone of our business, we've been able to take advantage of a rapidly expanding market, with sales growth of 6.0% representing our best performance in this category for many years.

Boots Healthcare International performed very well, too, increasing comparable sales by 7.8%, an impressive level of growth that was achieved entirely organically.

Group sales for the year were £5,326.4m, up 4.7% on a continuing basis, while operating profits were £551.2m. The proposed final dividend of 21p per share makes a total for the year of 29.8p, up 4.2% on last year.

We have continued to tighten our balance sheet through our ongoing share buyback programme. During the last year, we carried out £259.9m of share repurchases and we intend to continue our programme of returning surplus capital during the coming year.

Moving the business forward

In broad terms, our strategy could hardly be simpler: we are committed to doing whatever is necessary to make Boots a more modern, competitive and efficient business. At ground level, that means making sure that our stores provide precisely what our customers are entitled to expect: an attractive and welcoming environment; a great choice of products, available when they want them; good value; and expert service of the highest quality.

Simple to state, harder to deliver. But that is the responsibility with which the board has charged Richard Baker and his executive team. It's important to stress, however, that while our expectations are very high, we're not demanding instant results and our goals are long term.

In Howard Dodd's financial review on pages 22 to 25, you will find a detailed account of our strategy for analysing and managing investment. But, very briefly, our approach to risk and return is now a highly pragmatic one. Rather than setting off in pursuit of big prizes in the far distance, we are channelling our investment into core areas of our business, where we can be confident of adding real value and achieving worthwhile returns.

Comings and goings

I feel fortunate to have begun my tenure as chairman at the same time as Richard Baker joined us as chief executive. I knew that Richard brought with him great energy and formidable retailing skills; but, all the same, I have been delighted by the impact he has already made on our business, at this very early stage in his career with Boots.

At the same time, I'd like to pay a warm tribute to my predecessor, John McGrath. His chairmanship coincided with a difficult period in the history of Boots and he played a very important part in laying the foundations for change, on which we are now building. He also worked incredibly hard, leading from the front by taking on the additional duties of chief executive, between the departure of Steve Russell in May and Richard's arrival in September.

Andy Smith resigned in October 2003. As group human resources director, Andy was a driving force for change in Boots, trusted and respected throughout the organisation.

I would also like to welcome Guy Dawson and Tim Parker who joined us as non-executive directors during the year. Both bring with them enormous experience and a proven record of business achievement, Guy as a leading investment banker, Tim (currently chief executive of Kwik-Fit) at the most senior executive level.

Corporate social responsibility

As you know, Boots is one of Britain's most trusted brands. One important reason is that we have always believed that successful businesses have obligations not just to their shareholders, but to their employees, customers, their communities and the wider world.

It's fair to say, though, that we have been slower than some of our competitors to take the credit for our achievements as good corporate citizens. So I am especially pleased to report that, over the last year, our updated corporate social responsibility programme has begun to win widespread recognition. You'll find a full account on pages 16 to 19.

Building for sustained growth

As I began by saying, I'm convinced that our business has enormous potential. We have the people; we have the products and brands that customers want; and, gradually, our investment is creating the systems and structure needed to achieve sustained growth in modern retailing.

As you've heard, it will take time. In the current year, our programme of investment in BTC will naturally have a major impact on profits. But from 2005/06 onwards, we believe that a new and highly successful chapter in the long history of Boots will begin.

Chief executive's review

'On Monday 15th September last year, the day I joined Boots as chief executive, I didn't go straight to the office. I spent most of the morning visiting three of our stores.

I knew that whatever challenges a retailer faces, the answers are most likely to be found in the stores. Because, of course, that's where our customers are. And, no less important, because nobody knows better what's working well, and what needs to work harder, than the people who serve our customers.

I learned a lot from talking to Boots people that morning, not least how passionately they want to see this company achieve its full potential. Despite fierce competition, I'm confident we will – by harnessing that passion, and by acting upon the lessons we learn every day in each of our 1,400 stores.'

R. A. Baker

Richard Baker

First impressions

When you're as big and famous as Boots, everyone has an opinion about you. I certainly did, before I joined the company. In Boots, I saw enormous strengths: a profitable business, with a strong balance sheet, long established as a leading player and successful brand owner in growing markets.

I also saw a company with an enviable relationship with its customers, based on the kind of trust and even affection that can only develop over quite a few decades. Great locations, too, with a prime pitch on almost every high street, and real potential to exploit our brands, through Boots Healthcare International.

As an outsider, I was also aware of some negatives. My impression, reinforced by hostile press coverage, was that Boots had lost a bit of confidence in itself; that the stores were not as bright and customer-friendly as they needed to be; and that, organisationally, the company was lacking sharpness.

When I started here, my preconceptions were broadly confirmed. But one thing really did surprise me. I'd expected the people to be good. They weren't good – they were absolutely outstanding. In Boots people, I found an inherent level of customer care I've never encountered before; a sense of dedication and purpose genuinely comparable to that of, say, a nurse or teacher. And, as I mentioned above, I found they were hungry for change. Or, more accurately, I should say they were hungry for faster, more radical change.

Picking up the pace of change

Before I joined Boots, programmes to transform the company had been underway. To mention just one important example, the Lower Prices You'll Love initiative had already begun to make a real impact in changing the perception that Boots couldn't compete on value for money. But we weren't moving forward fast enough.

So my brief wasn't to reinvent the company from scratch, but to inject some urgency and impetus into the process of making Boots The Chemists (BTC) a more modern, competitive and efficient retail business, in order to deliver value for shareholders.

On the following two pages, I'll be explaining how each of those three key adjectives translates into a better shopping experience for our customers. First, though, I'd like to tell you a little more about the broader organisational and cultural changes upon which everything else depends.

Putting the stores back at the centre of the business

We've made the stores the hero again. For years, our core retail business was worked hard in order to fund new ventures, some of which performed disappointingly. There's no doubt at all that this had a negative effect at store level, where many people felt that their efforts weren't being appreciated, or their needs met, by head office.

Large-scale investment in our stores and the quality of our customer proposition is, of course, a big part of the solution. No less important is the dramatic restructuring of our central management function, which we have now almost completed. Stripping away unnecessary layers of management in head office has sent out the clearest possible signal that we are serious about putting real decision-making power into the hands of those closest to our customers, the people in our stores.

A better Boots, one step at a time

Just over eight months into the job, I'm encouraged with the progress we've made across all our businesses.

But nobody is more aware than me of the challenges that lie ahead. We face intense competition, both from the might of the multiples and the quick-witted entrepreneurialism of the independents. We've now had most of the quick wins that were available to us, so from now on, we'll have to fight for every percentage point of improved performance.

The good news, though, is that, as an organisation, we're absolutely up for the battle. The people across our business, have a real desire for success. Our strategy – pushing forward modernisation, yet reconnecting to the core values and successful origins of the brand – is the only possible one. And I have around me, a leadership team who share my determination to do the right thing rather than the easy thing, and to build a better business one step at a time.

We've identified our immediate priorities; areas where we can sharpen our performance in the short term. But to complete a programme of change on the scale I've described will take time. It is, at least, a five-year plan; and a huge amount remains to be done, across all our businesses.

By starting to get the fundamentals of retailing right through careful investment, we've begun the journey. And every day now takes us a little closer to a modern, competitive and efficient company that can deliver sustainable profit growth and shareholder value well into the future.

Finally, I'd like to say a huge thank you to all the people in our organisation for their amazing hard work, flexibility and commitment through this period of enormous change. All parts of the company have been effected with jobs changing and working patterns being turned upside down everywhere. Boots people care.

Modern, competitive and efficient.

Modern These days, when time is precious to almost all of us, nothing matters more to our customers than convenience. They want to shop when it suits them. So a vitally important development last year was our move towards flexible opening hours. As with many other decisions, we left individual stores to drive this one for themselves, depending upon local demand. And virtually all our stores have grabbed the opportunity to serve their customers better by extending their hours. Many more stores now open on Sundays. Once customers are through the door, of course, modern convenience means making shopping easy, quick and enjoyable for them. Our massive investment in our stores is enabling us to do just that in all kinds of ways, from improved signage to advanced touch-screen tills. Are queues a thing of the past at Boots? Not yet, but we're working on it.

Competitive Over the years, Boots has been able to command a price premium, justified by both the quality of our products and the expert customer care provided by our people. But, with value for money higher on the nation's shopping list than ever, we're 100% clear that we need to compete much harder in this respect. Last year, we made real headway, reducing prices on around 2,000 lines by an average of 18% – and making it clear to customers that value for money is here to stay at Boots. Well-managed price investment enabled us to do this without serious damage to gross margins. At the same time, we further sharpened our competitive edge right across our customer offering – from introducing innovative new Boots brand products, through making our merchandising work harder, to strengthening our core pharmacy business. And, of course, those extended opening hours mean that we can compete longer as well as harder.

Efficient Running a business efficiently is, very largely, about attitude. It's about instilling in people the sense that they can get things done right here, right now. And it's about removing the obstacles that stand in their way. Our radical management restructuring has played a very important part in that. But, in the past, the single biggest problem our stores faced in serving their customers efficiently was a highly complex and slow moving supply chain. So we're rebuilding it from scratch, working backwards from the shelf to the warehouse. The aim is to ensure that our stores always have exactly what our customers want, when they want it. And as our new outsourcing agreement with Unipart has come into effect over the last year, alongside the introduction of new stock management processes, we're getting closer to delivering on that every day.

As you've heard, 2003/04 was a year of massive root change for Boots. From rebuilding our entire management structure to laying the foundations of a new store-friendly supply chain, we focused our efforts on initiatives designed to transform our business over the next five years. Yet, while looking to the future, we continued to perform very solidly, in the here and now. Boots The Chemists delivered good sales growth throughout the year, holding market share. Boots Healthcare International recorded sales of over £500m for the first time, growing at around twice the rate of the market, and comfortably over-delivering on its strategic targets.

Boots The Chemists

As customers responded to lower prices on around 2,000 lines, wider choice and better availability, Boots The Chemists (BTC) made real progress in 2003/04. Sales grew throughout the year, and we enjoyed our second excellent Christmas in succession. With renewed focus on our core healthcare business, we had our best year since 2000. We were specially pleased to regain market leadership in vitamins. And, at the very heart of our business, our relaunched Prescription Collection Service helped us to secure the loyalty of many of our dispensing customers. In all, an encouraging year, as a visible improvement in our all-round customer offering began to produce results.

Strategy We believe the way forward for BTC is to build our future success on our traditional strength in healthcare. That, of course, is what has made the Boots brand so widely trusted; and it's also the common thread that runs through all our stores. No less important, it's a growing market with an exciting future.

Alongside our healthcare expertise, we need to offer the kind of products that give customers a compelling reason to shop at Boots. To this end, we're continuing to develop our own brand ranges, ensuring that within our product offering, there is a clear structure that enables customers to differentiate easily between 'good', 'better' and 'best', and choose the brand which meets their particular needs.

Next, we must ensure that our customers feel they can expect fair prices from us, and real value for money. Lower Prices You'll Love is a step in the right direction. Strong promotions and our massively successful Advantage Card will lend strong support in this key area.

Boots The Chemists

Sales £m	4,475.7
Increase %	4.5
Profit £m (before exceptionals)	531.1
Decrease %	(6.6)

Sales split	£m
Health	1,806.7
Beauty & Toiletries	1,992.5
Lifestyle	676.5

A further plank in our strategic platform: better, more welcoming stores, offering the right product mix for the location. A very important development here, is our new focus on introducing three clearly defined simple store formats: destination, convenience and community chemists. We're also beginning a major move into edge of town locations, where we see significant potential for sales growth. We opened 19 new stores last year, with around 40 more to follow in 2004/05.

Finally, it almost goes without saying that the outstanding level of expert customer care provided by our people will continue to give Boots a major competitive advantage.

Management structure A critically important change in the structure of BTC was introduced during the past year. We created a single commercial function, responsible for every aspect of our customer offer – product ranges; price and promotion; store environment; and communication. By integrating these key functions, we've been able to work in a far more efficient and co-ordinated manner to ensure that we're getting the retailing basics right in all our stores.

Trading Overall, BTC sales rose by 4.5% over the year (3.9% like-for-like). Sales grew in every quarter, and by 5.1% over the Christmas period, following on from an 8.1% increase the previous year.

Renewed focus on our healthcare business resulted in sales growth of 6.0%, our best performance since 2000. As more customers signed up for our relaunched Prescription Collection Service, dispensing was up by 6.3%, though this represented a small loss of market share, which we are addressing through the introduction of our new health centre-based pharmacies.

Beauty & Toiletries grew overall by 4.7%, with cosmetics and fragrances continuing to do very well, up in terms of both sales and market share. Growth of only 0.9% in toiletries reflects our very substantial price investment in this area.

Sales in other categories were flat overall. Our Baby business grew by 4.5% as we seek to broaden our ranges to provide a more competitive offer, including the successful launch of MiniMode clothing in our larger stores. Our Food business grew by 2.5% helped by the relaunch of our own Shapers brand. Our Photo business declined by 6.0% as the market for traditional film processing shrinks with the onset of digital photography. To offset this, we are leading the market in offering digital film processing.

Advantage Card The Boots Advantage Card has proved itself very well named in recent years and is a real bonus for customers. With over 16 million in circulation, it's one of the UK's most generous loyalty cards. Not only is it a major sales driver for us, but also a source of invaluable customer information.

In September last year, the introduction of a new instant Advantage Card gave us an even bigger competitive edge and a great incentive to our customers. Tempted by the opportunity to start collecting points on purchases immediately, over a million more Boots customers signed up for the card.

Health As you've read, we had an excellent year, as major investment in this key area of our business reinforced the traditional strength of the Boots brand in all matters health-related.

In particular, the very large sums we're spending on modernising our pharmacies enabled us to provide customers with a faster, more efficient service. A further 192 new-look, efficient and customer centred pharmacies were unveiled during the year. And our new SmartScript IT system, was installed in over 550 stores, greatly improving the quality of our dispensing operation.

We were very pleased, with the success of our advertising campaign for Prescription Collection Service. For people with busy lives, as well as those who find getting around difficult, the advantage of us collecting their regular repeat prescriptions from their GPs is obvious: all they have to do is pop into Boots when their prescription is ready. But there are real business benefits for us, too. Not only does the scheme greatly increase customer loyalty, it also means that we can dispense prescriptions at times planned to avoid the busy parts of the day when customers are wanting immediate service. As a result of these developments, dispensing sales were up 6.3%.

Good sales of over the counter (OTC) medicines – especially vitamins – were driven by product innovation, as well as more competitive prices and promotions.

Beauty & Toiletries The health of our customers may have been our highest priority, but we certainly didn't neglect their appearance. Beauty & Toiletries sales were strong throughout the year.

Cosmetics and fragrances were the star players here. New fragrance launches (for example, Chance from Chanel), and more stores with prestige brands, such as Clinique and Clarins, played a very important part. And our biggest Boots brand, N°7, had another excellent year, due to the continued success of Intelligent Colour Foundation, and some strong promotions.

Sales in toiletries were up slightly as a result of price deflation.

Lifestyle During the year we renamed this category which includes baby, food, photo and seasonal gift, to lifestyle. We considerably improved our baby offering. A number of our larger stores extended their baby departments, enabling them to carry a much wider product range, including clothing and accessories; and smaller stores now have a better selection of baby essentials. As a result, sales increased by 4.5%.

In food, where sales were up 2.5%, the year's biggest story was the relaunch of Shapers, our second biggest brand after N°7. The lunchtime market is very large, and getting larger all the time. And we believe that the new improved Shapers range, created with the help of top chefs, has the potential to grow substantially over three years. Customer reaction so far has been enthusiastic.

Photo sales were down by 6.0%, as the market for traditional film processing continued its inevitable decline. But even here, we have a positive story to tell: printing from digital cameras helped to offset the loss of sales. And, as we continue to roll out our new digital kiosks, we'll soon be able to process digital media cards in every store.

Products New and improved own brand products launched in the year included Boots Basics, an entry level brand which was launched in Spring 2004, offering best quality at supermarket prices. The new Soltan range was launched for summer 2004 with a market leading ★★★★★ claim, developed by inhouse suncare experts. The Shapers brand was relaunched in January 2004 and won the British Sandwich Industry Awards 2004 for Sandwich Retail Multiple of the year. New healthcare products included multivitamin gummy bears for children, and for adults, dissolve in your mouth vitamin strips.

Store development We know from customer feedback that our stores haven't been inviting enough, and we're addressing this through our store modernisation programme. But it's no less important to ensure that each of our stores does the job that customers need it to do, according to its location.

To this end, we have begun a programme of store development based on three simplified formats: community chemists, with healthcare at the heart of our offer; convenience stores, offering rapid turnaround shopping, with food heavily featured; and destination stores, offering the entire Boots shopping experience, and worth a special trip.

Introducing these new formats across our store portfolio will take time, but during the year, we made an encouraging start. July 2003 saw the launch of our Kingsway convenience store in London. And in February 2004, we opened a pilot new-look community chemists in Urmston, near Manchester. Both have been well received by customers.

The other major development last year was the rapid acceleration of our edge of town programme. In the high street, we have 35% of health and beauty sales, out of town just 5%. So we know that there's a great opportunity. During the year, we opened 19 new stores, and we'll be opening another 40 during 2004/05.

We also opened seven new health centre pharmacies giving Boots the opportunity to offer our traditional dispensing expertise where the patients need it.

Services including Opticians and Dentalcare For reasons of cost and efficiency, these businesses are now being integrated into BTC enabling us to cut costs by eliminating duplication of functions such as marketing. Previously, our opticians and dentists operated as stand-alone businesses, within our stores but largely independent of them.

Previously this was especially valuable in the case of Boots Opticians, which had a tough year in a highly competitive market. Sales were down by 3.0% like-for-like, but improved buying terms and costs control meant that profitability nevertheless improved.

Meanwhile, our decision to restructure our dentalcare business, began to pay off. Our dentists are now self-employed and their productivity has increased significantly during the year. Sales were up by 11.1% like-for-like.

boots.com Underlying sales increased by 59% to £14.8m, bringing the business close to break-even. A 67% increase in the Christmas period, rising average transaction values and high customer interest in the Boots online offer are strong indications of the potential for further sales growth.

During the current year, boots.com will develop a more compelling and complete offer with the addition of pharmacy medicines and prescription fulfilment online. This will have gone live by the time you read this report. Importantly, this initiative puts us in a strong position to benefit from the planned introduction of the new NHS IT systems, which will enable GPs to send their patients' prescriptions direct to pharmacies.

We will also provide our customers with even more choice in our larger stores by allowing them to access the extended range of products available at boots.com. This is achieved through the development of new in-store ordering technology to be launched in summer 2004.

Boots Healthcare International

Boots Healthcare International (BHI), over-delivered on year two of its four-year strategic plan, achieving sales of more than half a billion pounds for the first time. This represented sales growth of 7.8% and profit growth of 14.9% at comparable exchange rates.

Strategy BHI aims to become a top 10 global player in OTC healthcare, and to establish, through brand innovation, a top three leadership position in our three core consumer healthcare categories of analgesics (Nurofen), cough/cold (Strepsils) and skincare (Clearasil), while also developing new brands.

In February 2002 we announced a four-year plan to step up investment in marketing and new product development. In order to achieve growth targets as rapidly as possible, it was also part of this strategy to acquire brands with potential for rejuvination and development. At the same time we set out financial goals for the four-year period.

Trading With sales of £504.6m, we grew our business by 9.6% (7.8% at comparable exchange rates), roughly twice the rate of the total OTC market. Our core brands grew at 10.0% (comparable) fuelled in particular by the new product development.

Opticians and Dentalcare

Sales £m	241.6
Decrease %	(6.6)
Operating loss £m (before exceptionals)	5.1
Increase %	83.5

Boots Healthcare International

Sales £m	504.6
Increase %[1]	7.8
Profit £m (before exceptionals)	80.6
Increase %[1]	14.9

Core brand sales	£m	Increase %[1]
Nurofen	140.3	15.3
Clearasil	89.7	6.3
Strepsils	84.8	8.9
Dermocosmetics	51.3	5.7

[1]at comparable exchange rates

Operating profit was up by 14.9% (comparable) to £80.6m, and net margin grew by 0.8 percentage points to 16.0%. We maintained brand investment at 28.2% of sales, while operating costs reduced by 1.2 percentage points in relation to sales to 27.9%, compared with 29.1% last year.

Analgesics Sales of Nurofen grew to £140.3m, up 15.3% (comparable), against global analgesics market growth of just 3.1%. We achieved particularly strong sales, and increased market share, in Australia, UK, Ireland, Central Europe and Russia.

Key Nurofen product developments included a packaging relaunch; new easier to swallow tablets, and the launch of a new Migraine Pain variant. In Australia, the switch from pharmacy only to general sales list status gave a further boost to sales.

Nurofen for Children continued to grow rapidly, gaining share in all markets.

Cough & Cold Sales of Strepsils grew to £84.8m, up 8.9% (comparable), against global sore throat market growth of 5.8%. Here, sales and share grew most strongly in Western Europe and the Middle East/Africa.

Important brand developments included a global packaging relaunch, and the launch of Streps Douceur in France.

Skincare Sales of Clearasil grew to £89.7m, up 6.3% (comparable), in line with global market growth. Our strongest sales performances were in the UK, Australia, Russia and France.

North America shipments were flat, but understate strong in-market consumption growth of 14.2%, due to the timing of the launch of Total Control a year ago.

Country highlights BHI performed well in many of its established markets, particularly the UK, Ireland and Australasia. It was also a good year for BHI in development markets, with double digit growth in Poland, Russia and India. In Continental Western Europe, results were held back in part by uncertainties about healthcare reforms in France and Germany.

Outlook We're confident BHI will continue to deliver on its strategic targets. We'll also be pressing ahead with two important programmes: a major restructuring of our supply chain, which will cut product costs and release working capital; and the introduction of new business processes and systems, which will significantly improve our efficiency and speed to market.

Boots Retail International

We are starting to see if there's real demand all over the world for Boots own brand products, and our expert customer care. This was the year when Boots Retail International (BRI) began to make real progress towards meeting that demand, profitably.

Strategy Our long term vision is to help consumers throughout the world to look and feel their best. Originally, we aimed to achieve this by opening stores; but we have since developed a new implant strategy based upon taking the very best Boots own brand products – currently, around 600-800 of them – and offering them to shoppers in a Boots-branded environment, within a host-retailer's store.

The success of this strategy depends, crucially, on finding the right local partners. And since we started to evolve this new approach in 2000/01, we've made exciting progress. Our most notable achievements to date have been in Hong Kong where we now have just over 30 highly successful implants in Watsons' drugstores.

Boots Retail International	
Sales £m	43.0
Increase %[1]	20.8
Operating loss £m (before exceptionals)	(10.4)
Increase %[1]	54.3

[1] at comparable exchange rates

The challenge for BRI over the last year has been to continue to build on the success of this new model, while rationalising unprofitable elements of the business.

Trading Operating losses were down by 54.3% (comparable) last year. Our Asia and exports businesses are now profitable at a regional level, and we've grown sales by 16.1% (20.8% comparable), exceeding our projections.

In South East Asia, our business is now profitable. Our stores in Thailand are now trading profitably; a very significant milestone.

In the USA, BRI USA are trialling our implant concession business, in partnership with two leading retailers. We've now opened 18 implants with Target, mostly in Denver; and 12 with the drugstore chain CVS, in Connecticut. It's too soon to draw any conclusions, but early signs are encouraging.

Outlook We are gaining confidence in the strategy for BRI. We are starting to find that customers around the world like Boots products, and that our retail partners are seeing an enhanced offering with a Boots presence in their store.

Getting in Shape

In 2002, we announced Getting in Shape, a cost-cutting programme intended to save £100m. Moving forward with this initiative was among the most important steps in making our business more modern, competitive and efficient.

It was clear that our Nottingham head office had grown too large. With a headcount of over 3,000, there were too many people, too many layers of management and nowhere near enough scope for quick, responsive decision-making. Following a top-to-bottom organisational review, we announced in January that we would be cutting around 900 jobs, reducing numbers in virtually every department.

The expected cost of our redundancy programme is £45.5m. Cost savings related to those departures amount to £31.4m in total, of which we invested £5.8m in creating 290 new jobs in our stores.

By the time you read this, most of these jobs will already have gone, and we will be looking ahead to a further round of job cuts in the current year, with the aim of bringing our total head office team down to around 1,500 people.

We've worked very hard to make Getting in Shape as painless as possible for our people. We announced the changes as soon as we could, and maintained open and honest communication throughout the process. And, as well as financial support, we provided those affected with expert advice and counselling on job opportunities. As a result, we were able to achieve almost all the redundancies voluntarily.

Supply and support services

We want every customer to find exactly what they are looking for on our shelves, at a price they are happy to pay, every time they visit Boots. The massive programme of change necessary in order to deliver that gathered pace in 2003/04, as our supply chain, manufacturing operation and IT function all underwent transformation.

Store-friendly supply chain Despite fundamental restructuring of our supply chain, and the opening of 35 new stores, we held availability at high levels throughout the year.

In 2002/03, we announced our plans to rebuild our supply chain which, rather like our head office, had become over-complicated. Working backwards from what our customers want, the ultimate aim was to create a supply chain capable of delivering any stock item, in any quantity from singles upwards, direct to the shelf in any of our stores, every day.

In the year under review, we made huge structural changes in preparation for rolling out our store-friendly supply chain.

Recognising the need for specialist logistical expertise, we outsourced our two largest Nottingham warehouses to Unipart in August. Under this deal, 600 Boots people were transferred to employment with Unipart, and an extra 300 jobs were created, to handle the greatly increased workload involved in picking, packing and delivering to stores.

The principle that underlies this modernisation is simple: all the hard work will now be done in the warehouse, enabling our stores to focus on selling, and caring for our customers. In addition, of course, stores will no longer need to hold large quantities of stock.

Even with the vast experience of Unipart, bringing our store-friendly supply chain into operation is a mammoth undertaking. But already, our stores – and, more importantly, our customers – are starting to see the benefits; and our plan is to ensure that the new system is fully bedded down in time for Christmas this year.

As part of our store-friendly supply chain initiative, we also transferred the management of Boots transport services to Tibbett & Britten. And the greatly increased efficiency of the new system is beginning to deliver important benefits in terms of better vehicle usage.

The new picking and packing system means that stock fits much better into delivery vehicles, and the fact that goods now go directly to the stores greatly reduces unnecessary mileage.

A further environmental benefit is that, with the vast majority of goods unpacked at the warehouse, we will improve the efficiency of our recovery and recycling operations.

Manufacturing In February 2003, we announced the closure of our factory in Airdrie. Transferring production of many key lines to other manufacturing facilities has been a major logistical exercise; and we were also anxious to give our employees as much time as possible to find alternative employment. So, for both these reasons, we scheduled the closure to take place over a two-year period.

Most of the Airdrie factory's production has now been transferred, with full supply being maintained throughout. To absorb this extra output, we've increased productivity at existing factories, without adding to headcount.

As a consequence, productivity in our Nottingham Beauty Care Operation is up by 40% and unit cost down by 20%. We've also taken the opportunity of these changes to organise the way we make our products. In many categories, we've been able to move from making large batches to short cycle production, which is enabling us to respond much more quickly to the needs of our stores, and the demands of our customers.

Finally, we've been able to improve our capacity utilisation quite markedly as we filled up our factories in Nottingham, France and Germany.

Purchasing Building on last year's success, we continued to make good use of innovative methods of purchasing, including internet auctions. As a result, we saved a further £30m on goods not for resale.

Making IT Easy The massive programme of organisational change and modernisation which you've read about in this report would not be possible without a company-wide IT infrastructure of the highest quality. During the year, we made very important progress towards putting that in place.

Throughout our business, our aim is to invest heavily in the IT systems. We need to make it easier for our people to do their jobs better, and to improve our customers' shopping experience. Our innovative outsourcing partnership with IBM and Xansa, now well established, is enabling us to move forward towards this goal around three times faster than was previously possible, and at much lower cost.

Our new SmartScript pharmacy system, for example, was implemented in over 550 stores during the year. Around 6,000 new generation touch-screen tills were installed in 2003/04 in nearly 500 stores, at a rate of eight stores per night and this will continue through 2004/05. (Importantly, these tills are also compatible with the new chip and PIN technology, currently being introduced to combat card fraud.)

In addition, we launched a series of initiatives aimed at making stores more efficient. Among these, we're installing an advanced high capacity wide area network, making our stores a truly integrated part of our business for the first time. All of our key systems – from finance and HR to space and range planning – can now be accessed from anywhere within our business.

In our Wolverhampton and Burton-on-Trent stores, we trialled new wireless stock management systems, enabling store staff to carry out stock and price checks in real time, without leaving the shop floor. The time savings were very impressive, so we'll certainly be pursuing this.

Two customer-facing IT successes during the year: our new gift card, an electronic version of the traditional Boots gift voucher, was well received; and the launch of an instant Advantage Card – enabling customers to start collecting points straight away – was an enormous success, contributing to the recruitment of around a million further Advantage Card holders.

There's still a lot to be done. But we're committed to making the necessary investment, and the benefits of our outsourcing partnership have already proved even greater than we hoped. We're well on our way to delivering upon the working title of our systems investment programme: Making IT Easy.

Corporate social responsibility

In recent years, many companies have come to recognise the importance of conducting their business in a socially responsible manner. Boots has been doing that for well over a century, since the days of Jesse Boot. Furthermore, over the past year we've developed a new, more systematic approach to reporting on, and measuring the results of, our many and varied corporate social responsibility (CSR) activities. The aim has been to improve our performance, and increase accountability; but a pleasing side-effect is that our standing in external ratings, such as the Business in the Community Social Responsibility Survey, has risen dramatically.

As part of our new approach, we've grouped our activities under four headings, reflecting the main arenas where we believe that Boots is making a contribution: community, environment, marketplace and workplace. In the first of these, our aim is to create a genuine sense of partnership in the communities we serve.

Community

Award-winning work for well-being In summer 2003, Boots was presented with two awards for excellence by Business in the Community – the most prestigious UK awards recognising responsible business practice.

The Healthy Communities and Innovation awards were presented in recognition of our programme of health initiatives, developed in partnership with the NHS in Nottingham, with the aim of helping hospital patients to take control of their own health and recognise the value of taking time out for themselves. This includes the development of Time for a Treat workshops and a volunteer massage service for patients at Nottingham City Hospital, as well as 'treat' days for NHS staff. And we are now supporting a pilot for a permanent wellbeing service for staff at Nottingham City Hospital.

Working together for happy healthy smiles By the age of five, over 55% of all Scottish children have dental disease. Boots has been working in partnership with Action for Sick Children in Scotland to address this startling statistic with an innovative learning-through-play initiative.

Dental playboxes have been specially developed for use in primary and pre-schools. They contain safe dental equipment, mini uniforms, books and toys. Through play, children learn about how to keep their teeth healthy and become familiar with what a visit to the dentist is like – helping to reduce their fear. The project aims to reach 18,000 children in its first year.

Sharing skills with the NHS Ten Boots managers have been 'matched' with NHS managers, in a new initiative to share skills and experience. The Skills Sharing Initiative was developed jointly by Boots and the Improvement Network, which supports the learning and development of all NHS organisations and staff in the local area. Employees were matched with someone in a similar role within the NHS, in areas including business development, marketing, training and development, and IT.

Emma Brock, an HR Manager with Boots Healthcare International and Nicola Goodwin, an NHS Service Improvement Manager, were matched with each other. Emma commented: 'As Nicola and I come from different functional and career backgrounds we have been able to contribute to and complement each other's skills and knowledge from different perspectives. The discussions have stimulated much thought and learning around possible alternative approaches that each organisation could consider.'

Environment

Dedicated as we are to the health of our customers, we naturally feel a passionate concern for the wellbeing of the environment. And, as with our products, innovation is the hallmark of our activities in this area.

Taking a lead on chemicals These days, every manufacturing or retailing business has a duty to consider the impact of the chemicals in the products it sells on human health and the environment. But as chemists, we believe that Boots has a responsibility to lead the way – both in highlighting chemicals for replacement and engaging with stakeholders to ensure that the position we take reflects their views.

Over the last 12 months, we've continued to develop our priority substances list, which highlights chemicals Boots are currently taking action on. We've also carried out independent research into the use of chemicals and debated with key stakeholders and opinion-formers across Europe on the proposed chemical legislation (REACH).

We continue to implement our strategy on chemicals (published in March 2003) across the whole of our business, and to ensure that we maintain trust in our brand, we'll continue dialogue with all our stakeholders, and our efforts to influence the legislative process of REACH.

A new strategy for cutting CO_2 emissions At Boots we're committed to minimising the climate change impact of our business, by reducing carbon emissions (principally CO_2). And in 2003, we became one of the first companies in the UK to conduct a detailed study with The Carbon Trust to determine the carbon 'footprint' of our stores, offices and warehouses, and also of transport used by us for delivery and for business travel.

As a result, we've been able to produce a detailed carbon management strategy, which among other things identifies potential savings of around 10,000 tonnes of CO_2 per year through energy efficiency in our buildings and transport.

Built-in sustainability, by Product Bank Over the past year, we've made important progress in applying sustainable development principles to product design, linking up with external centres of excellence to bring new ideas and concepts into the business.

At a strategic level this included our involvement in Project Sigma; a joint initiative involving Bsi, Forum for the Future and AccountAbility. In 2003, the project culminated in the publication of a groundbreaking series of sustainable management guidelines.

For internally produced products, the innovative thinking needed about sustainability is supplied by Product Bank. This new team within the product and development department is dedicated to understanding new technological developments and progressing them to a point where they can be used in Boots products. The aim is to build sustainability into new Boots products right across our portfolio, taking into consideration such issues as the need to reduce packaging and increase accessibility to all sections of society including the elderly and infirm.

Marketplace

For Boots there has never been a contradiction between running a successful, profitable business and providing a socially valuable service. That's part of our heritage, which is clearly reflected to this day in our stores, our products and even our relationships with suppliers.

A better deal for disabled customers As part of our commitment to meeting the objectives of the Disability Discrimination Act (DDA), staff in all Boots stores, opticians and healthcare services practices have completed extensive disability awareness training. Our aim is not just to prepare for stage three of the DDA (which comes into force in October), but to make all areas of our service provision fully accessible to all our customers.

Our training programme was based on typical customer interactions. Focusing on each kind of disability in turn, it was designed to help our staff learn how to modify their usual behaviour where necessary, when dealing with disabled customers.

Setting standards for our suppliers For a major retailer, ensuring that all its many suppliers treat their workers fairly and show a responsible attitude towards the environment is an enormous challenge. But that's the goal Boots is working towards. An important step, in May 2003, was joining the Ethical Trading Initiative (ETI), an alliance of companies, NGOs and trade unions, working together to promote the observance of internationally recognised labour standards – in particular, fundamental human rights – throughout global supply chains.

As a demonstration of our commitment to the ETI, we've embarked on a programme of assessing all of our Boots brand product suppliers against our own Code of Conduct for Ethical Trading (see Boots-plc.com). We aim to complete the programme by April 2006.

Carried out by our own team of trained social accountability assessors, this process reviews suppliers' labour practices and environmental performance.

As a result of the assessments we've carried out so far, 20 small to medium-sized Boots suppliers have been put forward to take part in the Envirowise Supply Chain Partnership, a government-funded programme offering free advice on practical ways to minimise waste and increase profit. To date, total savings of over £600,000 have been identified from those Boots suppliers who took part.

Working together to make a difference Thanks to the hard work of our own people, and the generosity of our customers, our charity partnerships raised much needed funds for two very important causes last year.

Our 'be up front' campaign took us into our seventh year of support for Breast Cancer Care. New for last year, N°7 teamed up with Swarovski Crystal to develop an exclusive brooch sold in support of the charity. Combined with make-over marathons at over 200 stores, this helped us to raise over £300,000 bringing the total we have donated so far to Breast Cancer Care to over £1m.

With one in five households in the UK affected by asthma we were happy to join forces with the National Asthma Campaign last year. As well as raising awareness of asthma issues among our customers, we sold specially designed pin badges at all our stores, raising well over £400,000 for the charity.

Workplace

Corporate social responsibility begins at home. That's to say, responsible employers recognise that caring for their own people is essential to the company's success, and its ability to meet its wider obligations.

Getting in Shape, responsibly As you've read elsewhere in this report, we cut around 1,000 head office jobs last year. This was a necessary step to make Boots a leaner, faster-moving and more efficient business; but, of course, we were very aware of the effect that this decision would have on our people, their families and the local community in Nottingham.

To minimise uncertainty, open and honest communication was essential. Chief executive Richard Baker announced the changes personally to everyone affected. And on the same day, each member of staff had an opportunity to discuss their own position, in a one-to-one session.

To achieve the majority of job losses through volunteers, we offered generous redundancy terms; and to help people find other opportunities, we used a professional outplacement service, as well the local Job Centre Plus. As a result, we succeeded in achieving virtually all the redundancies voluntarily.

Back to the floor, for Christmas At Boots, we strongly encourage our office people to spend time working in our stores, to keep in touch with the retailing realities on which our success depends. And at Christmas, with the stores stretched to their limits, we made a special effort to get as many people as possible back to the floor.

In all, around 2,000 people from head office volunteered to lend a much-needed hand. As well as helping our stores cope with Christmas, we've found this to be an invaluable way of bringing Boots people together, giving our store people a real sense of being appreciated and supported by their office-based colleagues.

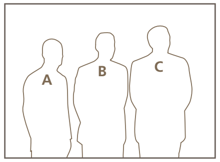
Listening to our people Responsible employers learn by listening to their people. So we recently carried out a survey to find out what our people think about Boots, their jobs and their managers. Among the largely positive findings, we were very happy that 78% of those responding agreed with the statement 'I am proud to work for Boots.'

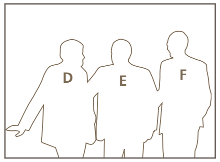
To give our people an opportunity to have their say about how we run the business, we relaunched the Boots Retail Forum last year. Already, this has started to provide us with very useful feedback about how people are feeling at grassroots level, and excellent suggestions about how Boots could serve customers better.

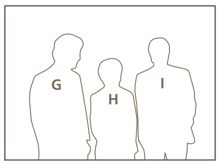
Exceeding our safety targets The health and safety of our people are, of course, an absolute priority for Boots. So we're pleased to report that our drive at Boots to reduce work-related accidents continued to deliver results. In fact, over the last two years, our performance in this respect has far exceeded the targets we set as part of our 10-year plan. There's been a major reduction in accidents across all our main operational areas, but Boots Manufacturing (BM) and Logistics have done particularly well, with improvements of 48% and 56% respectively.

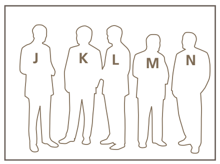
Finally, our annual Health and Safety Performance Report for 2001/02, published on our website in 2002, was identified as achieving an exemplary level of reporting, in research published by the Health and Safety Executive in 2003.

Board of directors and executives









A Howard Dodd
B Richard Baker
C Paul Bateman

D Dr Martin Read
E Sir Nigel Rudd
F Guy Dawson

G Tim Parker
H Hélène Ploix
I Jan Bennink

J David Kneale
K Paul Stoneham
L Alex Gourlay
M David Lister
N Michael Oliver

Executive directors*

Richard Baker 41, Chief Executive
Appointed September 2003. Formerly the chief operating officer and marketing officer at Asda. Prior to joining Asda, Richard worked for Mars where he progressed through a series of roles including national account management, marketing and then head of sales for UK multiples.

Howard Dodd 44, Chief Financial Officer
Appointed finance director in April 2002. Additional responsibility for our property portfolio from October 2003. Howard is a chartered accountant and a fellow of the Association of Corporate Treasurers. Previously he worked for AstraZeneca and ICI, where he gained significant international experience in finance and treasury.

Paul Bateman 51, Group HR and Operations Director
Appointed April 2002. Responsible for human resources (HR), corporate communications, logistics, manufacturing and engineering. Paul joined Boots in 2001 to lead supply chain and business services development. He previously worked for Procter & Gamble, where he gained many years' experience with global supply chains.

Non-executive directors

Sir Nigel Rudd 57, Non-executive Director, chairman
Appointed December 1999, deputy chairman since December 2001, chairman from 15 September 2003. Non-executive chairman of Pilkington and Pendragon. He is also a non-executive director of Barclays and chairman of the Boardroom Issues Group of the CBI. Sir Nigel is a chartered accountant and was previously chairman of Williams PLC for nearly 20 years.

Dr Martin Read 54, Non-executive Director
Appointed 1999. Chairman of the Boots remuneration committee. Dr Read is group chief executive of LogicaCMG plc, one of the world's leading global IT solutions companies. Before taking over at Logica in 1993, he held a number of senior positions at GEC Marconi. He was appointed a non-executive director of British Airways plc in 2000 and served as a non-executive director of Asda Group from 1996 to 1999.

Guy Dawson 51, Non-executive Director
Appointed September 2003. Chairman of Boots audit committee. Guy is a founding partner of Tricorn Partners, an independent corporate finance advisory business. He has previously held senior investment banking positions at Merrill Lynch and Deutsche Bank, advising major companies on a full range of corporate finance and strategic issues. He is also a non-executive director of The BOC Group plc.

Hélène Ploix 59, Non-executive Director
Appointed September 2000. Chairman of the Boots social responsibilities committee and a member of the audit and remuneration committees. Hélène is Chairman of Pechel Industries, a private equity investment company, and is a non-executive director of BNP Paribas, Ferring, Lafarge and Publicis Groupe.

Tim Parker 48, Non-executive Director
Appointed January 2004. Tim is currently chief executive of Kwik-Fit. He is also a non-executive director of Legal & General PLC. Previously he was chief executive of C. & J. Clark Ltd. the footwear manufacturer and retailer. He also led the management buy-out and flotation of Kenwood Appliances plc.

Jan Bennink 47, Non-executive Director
Appointed 2001. President and chief executive of Numico, a leader in infant and clinical nutrition. Jan's previous experience includes seven years with Danone as president of the dairy division in France, seven years with Benckiser as president of the Detergent Division in Italy and Germany and seven years with Procter & Gamble in the Netherlands and the US.

Executive committee

David Kneale 49, Chief Commercial Officer
David joined Boots in 1976 and held senior positions in the retailing area of the business. In 1999 he left to become managing director of Waterstones book stores. He returned to Boots in 2002 as director of trading and was appointed to his current role in January 2003.

Paul Stoneham 42, Managing Director
Paul was appointed Managing Director, Boots Healthcare International in September 2001. Formerly he was President of Alberto Culver International in the USA. Prior to this, Paul held a number of senior marketing and category positions with Procter and Gamble in the UK, Switzerland, Germany and Canada.

Alex Gourlay 44, Retail Director
Alex started working for Boots in 1976 as a Saturday assistant. He is a qualified pharmacist and has had numerous positions in Boots including store manager, regional manager, head of HR for stores, and director of retail implementation.

David Lister 45, Chief Information Officer
David has worked for Boots since 2001. Prior to this he worked for Glaxo Welcome and Diageo where he held several senior IT leadership roles. He also worked for Coopers & Lybrand, a management consultancy group.

Michael Oliver 55, Company Secretary
Michael is a solicitor, and joined Boots Legal Department in 1987 from private practice. Appointed company secretary in 2000. He is also responsible for the company's legal and intellectual property matters. Before qualifying as a solicitor, Michael was an army officer, and he is currently a member of the Take-over Panel.

*Richard Baker, Paul Bateman and Howard Dodd are all members of the executive committee.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Prescriptions

Financial review

Howard Dodd

'The year is characterised by success in driving higher sales and by substantial costs to modernise, improve competitiveness and make Boots more efficient. Clear business plans together with rigorous monitoring of performance have made a significant contribution to progress in the year. We were able to report that all the initiatives to drive growth were implemented within cost targets.

The Group have operated a revised process to approve investments and allocate capital over the last year. By adopting a broad range of measures it has enabled a better analysis of the risk and return associated with each proposal. We have also seen a significantly higher proportion of capital spend directed towards the two core businesses Boots The Chemists and Boots Healthcare International. To underpin the discipline and focus with which capital will be used within the Group, we intend to return £700m of surplus share capital to shareholders. It improves the efficiency of the balance sheet and it will be in two equal tranches over the next two years. The second £350m is dependant upon the cash flow performance of the Group and this is a major area of focus over the next 24 months.'

We have reviewed our financial strategy during the year and intend to increase our debt levels over the next couple of years by returning surplus capital to shareholders through our on-going share buyback programme. This will improve the efficiency of our balance sheet and enhance Earnings Per Share. Whilst balance sheet efficiency is important, we do intend to maintain a strong investment grade credit rating and will be targeting a range of financial measures, in particular cash flow, to ensure that this is achieved.

During the year we continued our share buyback programme and have now completed the return of the Halfords disposal proceeds. Since 1997 we have returned over £1.1bn of surplus capital by repurchasing shares.

We also implemented a new investment appraisal process based upon a range of cash flow and accounting measures to assess value and risk. These include cash flow based criteria such as net present value and payback, as well as return on capital employed and time to break even. This process is being rigorously applied to our store-opening programme in particular. It is targeting over 80 new stores at a capital cost of approximately £104m over the two years 2003/04 and 2004/05.

Turnover from continuing operations increased by 4.7% to £5,326.4m. This reflects the continuing good progress being made in Boots The Chemists where sales increased by 4.5% and the strong growth in Boots Healthcare International where sales were up by 7.8% (in local currency).

Operating profit from continuing operations including share of joint ventures grew by 6.0% to £550.1m. Growth initiatives drove up costs and higher Getting In Shape costs represented a major non-comparable cost increase. However, operating profit in the year benefited from significantly lower losses from businesses either closed or rationalised a year earlier. As you have read, during the year we announced a reduction in the head count at our head office. Around 1,000 of our people applied for voluntary redundancy – considerably more than we expected. The cost of these redundancies, which was £45.5m, has been taken against profits in 2003/04, although the people will actually leave during the current year. In total over 1,500 will have left the business under the Getting in Shape programme since it began last year.

All of the actions taken to date under the Getting in Shape programme will deliver benefits of £93m in 2004/05, with full year benefits of £132m for 2005/06. We intend to explore the scope for additional productivity and efficiency improvements during this year.

Profit before tax was up 18.0% to £581.0m. This has been helped by an exceptional gain of £36.4m, primarily relating to the disposal of property. In addition, last year included £123.2m loss on the sale of Halfords and £34.5m costs for the closure of part of the wellbeing services offering. These were both shown as exceptional items and were partially offset by an exceptional interest credit last year of £92.1m arising from the closure of interest rate swaps.

Taxation Excluding non-operating exceptional items, the effective tax rate for the group was 30.9%, slightly lower than last year's rate of 31.7%. We continue to focus on reducing the effective tax rate, but any actions to bring it down must fully support business priorities and avoid complexity in group operations.

Basic earnings per share before exceptional items increased by 7.1% to 48.2p (basic earnings per share increased by 47.8% to 52.9p). The weighted average number of shares in issue decreased in the year from 838.1m to 780.0m as a result of the continuing share buyback programme.

Dividend The board has confirmed a policy of sustainable dividend growth and we will be targeting a dividend cover ratio of 1.75 times over the medium-term. Consistent with this policy the board has proposed a final dividend of 21.0p. This brings the total dividend for the year to 29.8p, an increase of 4.2% over last year and in line with the last three years' dividend growth. On the share price at 31st March 2004 of 619.5p this represents a yield of 4.8%.

Working capital has increased by £47.5m in the year. This was mainly due to additional stock as a result of opening 19 new edge of town stores.

Cash flow The group continues to generate significant cash flow from operating activities. Cash flow from operating activities before exceptionals was £655.1m (2003 £590.4m) and cash flow before the effect of share repurchases and other financing was £175.4m (2003 £556.3m, including £358.1m from acquisitions and disposals).

Share price Our share price had a substantial range during the year. It rose from 530.5p, near its year's low of 525p, to a peak of 753p before ending the year at 619.5p. This performance reflects a general upward trend in the stock market during the year in conjunction with substantial volatility due to the arrival of and anticipation of results from the new executive team. The share price underperformed the FTSE100 by 4.6% over the year.

Pensions

When the Accounting Standards Board extended the transitional regime of FRS17 'Retirement Benefits' in July 2002, the Company decided to continue to account for pensions under SSAP24. The Boots Pension Scheme cost for the year under SSAP24 is £28m (2003 £31m). Disclosures under FRS17 are included in note 26 to the accounts.

On an FRS17 basis the scheme has now moved into a small deficit position of £58m at March 2004 from having a surplus of £154m last year. While the asset values have increased, the liabilities of the scheme have increased faster as a result of market conditions, particularly higher long term inflation expectations when bond yields have come down.

The pension fund investment strategy is to match the cash flow and inflation characteristics of the pension liabilities with assets to reduce the impact of market movements. The fund has increasingly matched the maturity and inflation profile over the last three years with bonds and index-linked instruments. Whilst maintaining this principle, it is intended to refine its implementation further to include a small proportion of the fund's investments in other asset classes, which may include property and equities. This will better match long term liabilities arising from current employees, which extend beyond the available maturities of bond investments.

Accounting standards

In November 2003 the Accounting Standards Board issued requirements on revenue recognition, in the form of Application Note G to FRS5 'Reporting the Substance of Transactions'. This application note has limited impact on Boots as existing accounting policies largely complied with the new provisions. In particular, revenue has been recorded net of staff and promotional discounts for some time. The full impact is disclosed in note 1 to the accounts.

International Financial Reporting Standards (IFRS) become mandatory for the consolidated financial statements reported by all EU listed companies from 2005 onwards. For Boots this means adoption for the year ended 31st March 2006. An impact assessment has been undertaken and work is underway to ensure that systems and data requirements can be met, in order to make Boots IFRS compliant for the 2005/06 financial year. The areas identified where IFRS will have the greatest impact is from changes in accounting for pensions, property, deferred tax, financial instruments, development costs and intangible assets.

Treasury policy and controls

Treasury policies are reviewed and approved by the board. Treasury has responsibility for the group's funding and cash management, and manages the group's counterparty credit, interest rate and currency risks. It enters into financial instruments solely for the purpose of managing these risks. It does not act as a profit centre and the creation of new exposures to generate profit is not permitted.

Note 19 to the accounts shows further details under the disclosure requirements of FRS13 'Derivatives and Other Financial Instruments: Disclosures'.

Liquidity and funding The group finances its operations through a mixture of retained profits, capital markets funding, bank borrowings and leases. The objective is to ensure that the group has access to liquidity at all times and can raise debt in a cost-effective manner. This is achieved through arranging funding ahead of requirements, maintaining sufficient undrawn committed facilities to meet unanticipated needs and maintaining good access to the capital markets through a strong investment grade credit rating.

At 31st March 2004, the group had undrawn committed facilities of £462m with seven banks, which mature in March 2005. High quality bank deposits are held to meet most short-term financing requirements, with uncommitted bank borrowings being drawn to meet peak seasonal needs.

Lease liabilities In common with other UK retailers, the group has liabilities through its obligations to pay rents under property leases. The following table shows the maturity profile of these lease obligations.

Maturity of commitment	Annual rent Commitment at 31st March 2003 £m	**Annual rent Commitment at 31st March 2004 £m**
1 to 10 years	69.1	**86.3**
10 to 20 years	79.4	**76.3**
20 to 30 years	10.1	**7.9**
Over 30 years	5.6	**5.0**
Total	164.2	**175.5**

The capitalised value of these liabilities is £1,242.2m (2003 £1,234.1m) based upon discounting the rentals, after taking into account assumed rental growth of 2.5% per annum, at the group's long-term cost of borrowing 5.85% (2003 5.70%). This year we have adopted the more conservative approach of including rental growth in our lease capitalisation valuation.

The Group, in common with the credit rating agencies, treats its lease liabilities as being 'debt like' when evaluating financial risk and investment returns.

Counterparty credit risk The objective is to reduce the risk of loss through default by counterparties. The risk is managed by spreading financial transactions, including bank deposits, across an approved list of high quality banks. Counterparty credit positions are monitored on a regular basis. Dealing in interest rate and foreign exchange instruments is controlled through dealing mandates, independent confirmation processes and the use of standard settlement instructions.

Interest rate exposure Short-term interest rate movements currently have an immaterial effect on the group's net interest rate charge. Gross debt comprises a mixture of fixed rate £182.9m (2003 £1.1m) and floating rate, with approximately 50% of the fixed rate debt with maturity greater than one year being converted into floating debt through the use of interest rate swaps. The resultant floating rate exposure on gross debt is offset by that on cash and money market assets, leaving the net interest charge relatively immune to interest rate movements.

Currency exposure Sales are made from the UK in a range of currencies for the Boots Healthcare International and Boots Retail International businesses and in Euros for Boots The Chemists in Eire. In addition, purchases are made in a range of currencies, but particularly Euros and US Dollars, for Boots The Chemists and Boots Manufacturing. The net currency exposures are modest and do not materially impact the group's profit before tax. The group has entered into limited currency hedging using forward contracts of its committed future purchases for Boots The Chemists. The group does not hedge currency exposures arising from future uncommitted transactions. The group principally borrows in sterling, but has entered into US Dollars 93m and Euro 118m foreign exchange contracts to create currency debt in these currencies. Currency debt is held to partially hedge the group's currency assets and to create a long-term hedge against future cash generated in US Dollars and Euros.

Capital structure The company has continued its policy of returning surplus capital to shareholders by repurchasing shares in the market. This amounted to £259.9m in the year to 31st March 2004 (2003 £462.8m), of which £191.1m completed the return of the Halfords disposal proceeds to shareholders.

Surplus share capital has been identified and a £700m return of surplus cash to shareholders over the next two years through share buybacks is planned. This is viewed as prudent and demonstrates the determination to deliver the growth plans for Boots in a focussed and disciplined way. £350m will be returned in 2004/05 but clearly the second tranche will depend upon the performance of the business and its generation of net cash flow.

Corporate governance

The requirements of corporate governance are set out in the Financial Services Authority (FSA) Listing Rules together with the related Principles of Good Governance and Code of Best Practice (the 'Combined Code'), adopted by the FSA.

Directors are assisted in complying with the internal control requirements of the Combined Code by the Institute of Chartered Accountants in England and Wales' publication 'Internal Control: Guidance for Directors on the Combined Code' (the 'Turnbull guidance').

The board considers that good corporate governance is an essential element of achieving its overall objectives. It has reviewed the group's corporate governance policies and practices, and has determined that during the period 1st April 2003 to 31st March 2004 the company complied with the provisions of the Combined Code applicable during that period, with the exception that Mr J B McGrath served as both Chairman and acting chief executive for the period following the resignation of Mr S G Russell from the office of chief executive on 31st May 2003 until 15th September 2003, when Mr R A Baker was able to join the company as chief executive.

The Board

On 31st March 2004 the board comprised the Chairman, three executive directors and five non-executive directors. The board considers this to be the appropriate size and balance for the company at present. Mr G N Dawson has been appointed the Senior Independent Director. Biographies and other details of members of the board of directors are shown on page 20 and in the directors' report on page 45.

There were a number of changes to the composition of the board during the year. Dr J G S Buchanan retired from the board on 24th July 2003, having completed six years as a non-executive director and as previously mentioned, Mr S G Russell left the board on 31st May 2003. On 15th September 2003 Sir Nigel Rudd succeeded Mr J B McGrath as Chairman, Mr J B McGrath retired from the board, and Mr R A Baker joined the board as chief executive. As a result of a review of the executive team Mr A P Smith left the board on 31st October 2003 following the combination of the roles of operations director and HR director, and the appointment of Mr P Bateman to that post.

In addition, during the year the board reviewed the composition of the board, and the balance of skills, knowledge and experience its members brought, and following that review instructed external search consultants to search for two non-executive directors. As a consequence of that process Mr G N Dawson and Mr T C Parker joined the board on 15th September 2003 and 28th January 2004 respectively. The board also reviewed succession planning for executive directors.

The Chairman meets with individual directors privately at least once a year to review their contribution to the board and personal development plans. Further the Chairman meets with the non-executive directors as a group four times a year in the absence of the executive directors. As part of the board evaluation programme, the non-executive directors, led by the Senior Independent Director, will meet annually without the Chairman being present to review performance of the Chairman, having considered the views of the executive directors. The board has established and is presently undertaking a programme, assisted by independent consultants, for the annual review of the board as a whole, its committees and its members. The programme includes confidential interviews with each director, when directors have an opportunity to express their views on their overall impression of the board and its committees and their organisation, composition, involvement in the business and effectiveness; the roles and contributions of board members; communications with shareholders; stakeholder issues and succession planning. The results of those interviews are consolidated and reported to the Chairman and, in so far as they relate to the board as a whole, to the board and, in so far as they relate to the Chairman, to the Senior Independent Director. The board nominations committee will consider the outcome of the programme in its evaluation of the skills, knowledge and experience of the board, and in formulating its development plans for the board.

Details of executive directors service contracts are given on pages 34 and 35, and all executive directors normally retire on reaching the age of 60. Details of the Chairman's appointment are given on page 34.

Non-executive directors are appointed for an initial term of three years from the annual general meeting following their joining the board, and subject to performance and reappointment where appropriate, there is an expectation of renewal of that appointment for a further three year term. Exceptionally non-executive directors may be invited to serve for a third and final three year term. Copies of service contracts and letters of appointment are available for inspection at the company's registered office and at the AGM. Non-executive directors' fees are determined by the board in the absence of the non-executive directors.

All directors appointed by the board must stand for reappointment at the first AGM following their appointment, and thereafter at least every three years. In addition, at least one third of the continuing members of the board must stand for reappointment at each AGM. Directors retiring and standing for reappointment at the 2004 AGM are identified on page 45.

The non-executive directors bring a variety of experience and expertise to the board and are all considered to be independent. Sir Nigel Rudd was considered by the board to be independent at the date of his appointment as Chairman. The board considers that an independent director is one who is independent in character and judgement, and where there are no relationships or circumstances which could affect the director's judgement. Relationships or circumstances which could affect judgement include having been previously an employee of the company, or having had close ties with any of the company's advisors, directors or senior managers, or having had a material relationship with the company, or receiving additional remuneration from the company apart from directors fees, or participating in the company's performance related pay or pension schemes, or holding cross directorships, or having significant links with other directors, or representing a significant shareholder, or having served on the board for more than nine years.

The division of responsibilities between the Chairman and chief executive is in writing and has been agreed by the board. The Chairman's responsibilities broadly follow the guidance given in the revised Combined Code, while the chief executive is responsible for leading the executive management of the company in the achievement of the company's objectives, and for the proper and successful management of the business.

The board has a programme to enable it to provide entrepreneurial leadership of the company within a framework of prudent and effective controls, and to assess and manage risk. The board usually has eight regular meetings in the year, including an annual strategy review, and other meetings are convened as required. In this year, nine regular meetings were programmed and took place. A schedule of matters reserved for decision by the board is maintained, including the approval of the annual report and accounts, the long term objectives of the company, the strategy to achieve those objectives, the annual operating plan, significant investment and disposal decisions, the structure of the group, payment of dividends, changes in accounting policies and practices, remuneration of and changes to the auditors, treasury policies, and the appointment and removal of the company secretary. The board delegates to management the management of the business.

For all board meetings an agenda is established. For regular meetings this generally comprises: Reports from the chief executive, the chief financial officer and the HR and operations director, including a health and safety report: Reports on the performance of the businesses: Approval of major items of expenditure, and other significant policy issues. The board is also notified of any permissions given to directors and senior managers to deal in the securities of the company under the company's dealing code. Appropriate papers are provided to the directors in advance of each board meeting. In addition the board considers at least annually the strategic plans of the group and of individual businesses, and from time to time directors receive presentations from management concerning key areas of the group's operations.

Full year and interim results are reviewed by the board audit committee and approved by the board prior to publication. Other price sensitive announcements may be published under the authority of a director.

During the year the board reviewed the composition and terms of reference of board committees, and a summary of the current terms of reference and details of membership of major board committees during the year are set out on pages 29 and 30.

The following table shows the attendance of directors at regular board meetings and at meetings of the audit, nominations, remuneration and social responsibility committees during the year.

	Board		Audit Committee		Nominations Committee		Remuneration Committee		Social Responsibilities Committee	
	Attended	Maximum possible attendance	Attended	Maximum possible attendance	Attended	Maximum possible attendance	Attended	Maximum possible attendance	Attended	Maximum possible attendance
R A Baker	6	6	–	–	–	–	–	–	–	–
P Bateman	9	9	–	–	–	–	–	–	–	–
J Bennink	8	9	2	4	3	3	3	4	0	2
Dr J G S Buchanan	1	3	1	2	1	1	–	–	–	–
G N Dawson	6	6	2	2	–	–	–	–	–	–
H Dodd	9	9	–	–	–	–	–	–	–	–
J B McGrath	3	3	–	–	1	1	2	2	–	–
T C Parker	1	2	1	1	–	–	1	1	–	–
H Ploix	9	9	4	4	3	3	4	4	2	2
Dr M P Read	8	9	2	3	3	3	4	4	1	2
Sir Nigel Rudd	9	9	2	2	3	3	4	4	–	–
S G Russell	1	1	–	–	–	–	–	–	–	–
A P Smith	4	4	–	–	–	–	–	–	2	2

All directors have attended meetings of the board and of committees of the board of which they are members unless prevented from doing so by prior commitments.

In the furtherance of their duties, the directors have full access to the services of the company secretary and may take independent professional advice (individually or collectively as a committee), at cost to the company, subject to a limit of £25,000 and to prior notification to the chairman of the audit committee. The company maintains appropriate directors and officers insurance in respect of legal action against its directors.

The company has during the year provided corporate governance training to those directors for whom it is their first appointment to a listed company board, and provides a tailored induction programme for non-executive directors on appointment.

The board has reviewed its policy concerning the appointment of executive directors to be non-executive directors of other companies. The board agreed that the additional experience and knowledge such an appointment brings benefits the company, and accordingly, agreed to permit executive directors to accept one such appointment where no conflict of interest arises, and to retain the fees received. The board had previously permitted two such appointments.

All non-executive directors have disclosed to the Chairman and to the company secretary their significant commitments other than their directorship of the company, and they are required to notify any changes to or additional commitments from time to time. Sir Nigel Rudd is non-executive chairman of Pilkington and of Pendragon, and a non-executive director of Barclays. The board is satisfied that Sir Nigel meets his obligations to the company.

The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels of Chairman, chief executive or chief financial officer have failed to resolve, or for which such contact is inappropriate.

The company secretary is an employee of the company and is secretary of all board committees.

Board committees
There are four principal board committees, all of which operate within written terms of reference. Summaries of the terms of reference and details of the membership of committees are set out below. Copies of the terms of reference are available from the company secretary and on the company's website. The terms of reference of committees were reviewed during the year by each committee and by the board. Only members of each committee are entitled to attend the meetings of committees, although each committee may invite other directors, managers and advisors to attend and frequently do so. Membership of board committees is regularly reviewed; given the size of the board and the need to have a quorum available, if necessary, at short notice, there is inevitably an overlap in directors' membership of committees, and in particular the board believes it appropriate for all the non-executive directors to be given the opportunity to participate in the work of the nominations committee. However, the chairman of the remuneration committee does not serve on the audit committee, and vice versa, and the board is satisfied that no one director exercises a disproportionate influence. No director has served on any committee for six years or more. Attendance at meetings of committees is set out on page 28.

Board nominations committee
Directors who served on the committee during the year are as follows:

Sir Nigel Rudd (chairman from 15th September 2003)
J Bennink
Dr J G S Buchanan (until 24th July 2003)
G N Dawson (appointed 28th January 2004)
J B McGrath (until 15th September 2003)
T C Parker (appointed 28th January 2004)
H Ploix
Dr M P Read

The board nominations committee meets as dictated by circumstances and met three times during the year.

The main responsibilities of the board nominations committee are to:
– Review regularly the structure, size and composition of the board and make recommendations to the board concerning that,
– Give full consideration to succession planning for directors,
– Evaluate the balance of skills, knowledge and experience of the board,
– Prepare a description of the role and capabilities required for any particular board appointment,
– Identify and nominate for the approval by the board candidates to fill board vacancies as and when they arise.

The committee also makes recommendations to the board concerning the standing for reappointment of directors. The committee does not make recommendations to the board concerning the appointment of a future Chairman, since this is required to be considered by the board as a whole, in the absence of the then current Chairman.

During the year under review the chief executive and two non-executive directors were appointed after searches conducted by external consultants and recommendations made by the committee, the responsibilities of certain of the executive directors were changed, and the committee recommended that directors having to stand for reappointment should do so.

Board audit committee
Directors who served on the committee during the year are as follows:

G N Dawson (appointed to committee as chairman 15th September 2003)
J Bennink
Dr J G S Buchanan (until 24th July 2003)
T C Parker (appointed 28th January 2004)
H Ploix (appointed in September 2000)
Dr M P Read (until 4th November 2003)
Sir Nigel Rudd (until 15th September 2003)

Mr Guy Dawson, the current chairman of the committee, was until 2002 chairman of European Investment Banking at Merrill Lynch and is currently a partner in the Tricorn Partnership, and accordingly has recent and relevant financial experience.

Dr Read and Sir Nigel Rudd retired from the committee on appointment as chairman of the remuneration committee and Chairman of the board respectively.

The board audit committee met four times during the year.

The external auditors attend meetings of the committee, other than when their appointment or performance is being reviewed, and the head of the internal audit function, the chief financial officer and members of the finance function attend as appropriate. The committee meets with the auditors in the absence of management at least twice a year.

The main responsibilities of the board audit committee are to:
– Monitor the integrity and clarity of the major financial statements of the company, and to review any significant financial reporting issues and judgements those statements contain.
– Approve the annual external audit plan and to review with the external auditors the nature, scope and results of their audit, and any control issues raised by them.
– Make recommendations as to the appointment, terms of engagement and remuneration of the external auditors and review any question of their resignation or removal, and to review the effectiveness of the external auditors and their independence.
– Review the consistency of and any changes to accounting policies, the application of appropriate accounting standards, and the methods used to account for significant or unusual transactions.

– Approve the internal audit plan, monitor and review the effectiveness and freedom from management interference of the company's internal audit function, and to approve the appointment and removal of the head of that function.
– Review the company's internal controls and systems and practices for the identification and management of risk.
– Monitor compliance with the company's policies to prevent illegal and questionable corporate conduct and to review arrangements for 'whistleblowing'.

The external auditors are appointed annually at the annual general meeting. The board audit committee considers the reappointment of the auditors and reports its findings to the board. The board audit committee periodically considers the performance, cost and independence of the external auditors, including a comparison of audit fees with those of other retail and FTSE100 companies and reviews the level of service provided by the audit team throughout the group. The committee has, during the year, established a revised policy on the supply of non-audit work carried out by the auditors to ensure that their independence is not compromised, and ensures compliance with that policy.

In addition to discharging their responsibilities described above and its work in connection with the audit and auditors, during the year the committee reviewed its constitution and terms of reference, reviewed the management of risk in major projects, and established a programme to enable its members to further develop the contribution they make to the committee.

Board remuneration committee
Directors who served on the committee during the year are as follows:

Dr M P Read (chairman from 4th November 2003)
J Bennink
Dr J G S Buchanan (resigned 24th July 2003)
J B McGrath (resigned15th September 2003)
T C Parker (appointed 28th January 2004)
H Ploix
Sir Nigel Rudd (chairman until 15th September 2003)

Sir Nigel Rudd has resigned from the committee since the year end.

The board remuneration committee met four times during the year.

The main responsibilities of the committee are to:
– Determine and review from time to time the framework, broad policy and specific terms for the remuneration and terms and conditions of employment of the Chairman of the board and of executive directors, including the design of targets and payments made under any bonus scheme.
– Agree any compensation for loss of office of any executive director.
– Recommend and monitor the level and structure of the remuneration of senior managers.

During the year under review the committee reviewed total remuneration of executive directors, reviewed salaries and allowances, made grants and made awards where appropriate under the Executive Share Option Plan and Long Term Incentive Plan, approved the terms of Mr Baker's appointment, Mr McGrath's appointment as acting chief executive and Mr Russell's and Mr Smith's compensation for loss of office.

A report on the remuneration of directors appears on pages 32 to 41.

Board social responsibilities committee
Directors who served on the committee during the year are as follows:

H Ploix (chair)
P Bateman (appointed 28th January 2004)
J Bennink
Dr J G S Buchanan (resigned 24th July 2003)
T C Parker (appointed 28th January 2004)
Dr M P Read (resigned 4th November 2003)
A P Smith (resigned 31st October 2003)

The board social responsibilities committee met twice during the year.

The main responsibility of the board social responsibilities committee is to keep under review and advise the board on the company's policies and practices in the areas of social responsibility, including those relating to health and safety, the environment, diversity and equal opportunities, race relations, employment of the disabled, charitable giving and ethical matters, and the company's values and standards.

During the year the committee reviewed those matters within its remit, and in particular reviewed and agreed a programme for the progression of social responsibility matters within the company. The committee reviewed its constitution and terms of reference.

Investor relations
Communications with shareholders are given a high priority. In addition to the annual and half year results presentations and the annual general meeting, a rolling programme of meetings between institutional shareholders and executive directors is held throughout the year. At each board meeting a report is given on shareholders' and analysts' views, issues (if any) and expectations, and periodically external consultants attend a meeting of the board and present a report on shareholders concerns and expectations. In addition, a magazine for private investors is produced. Non-executive directors are given an opportunity to attend meetings with shareholders, and each non-executive director is prepared to do so.

All members of the board usually attend the annual general meeting. A business presentation is given at the meeting, followed by a question and answer session. The notice of the meeting, together with any related papers, is sent to shareholders at least 20 working days before the meeting, or for those who have elected for electronic communication, notice is given to such shareholders of the availability of documents on the company's website. Shareholders are given the opportunity to vote on each separate issue. Postal proxy votes are counted and the proxy votes lodged are announced after the vote on show of hands on each item. Summary proxy figures are made available in writing at the end of the meeting and are also published on the company's website.

Internal control

The directors have overall responsibility for the group's system of internal control and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to the achievement of business objectives. Such a system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.

Business plans and budgets provide a framework from which performance commitments have been agreed between the chief executive and each business. These commitments incorporate financial and strategic targets against which business performance is monitored. This monitoring includes the examination of and changes to rolling annual and half year forecasts and monthly measurement of actual achievement against key performance targets and plans.

The group has clear requirements for the approval and control of expenditure. Strategic investment decisions involving both capital and revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Operating expenditure is controlled within each business with approval levels for such expenditure being determined by the individual businesses.

Executive management are responsible for the identification, evaluation and management of the significant risks applicable to their areas of business. These risks are assessed on a regular basis and may be associated with a variety of internal or external sources.

Each member of the executive and, where appropriate, their direct reports have provided to the internal audit committee, chaired by the chief executive, certified statements of compliance with the group's policies and procedures system of internal control, and each business assesses key business risks, controls and resulting exposures.

The internal audit function works throughout the group to further develop, improve and embed risk management processes and tools in the business operations. It also provides assurance to the board that risk management practices address the key risks faced by the group including risks that could arise from social, environmental and ethical matters. Its work includes an assessment of the risks and controls throughout the group and its findings are reported to senior management responsible for the area concerned. Internal audit also reports regularly to the board audit committee.

The board audit committee assists the board in fulfilling its oversight responsibilities, primarily reviewing the reporting of financial and non-financial information to shareholders, the systems of internal control and risk management, and the audit process. The external auditors and the head of the internal audit function attend all meetings of the audit committee, save in the case of the external auditor those parts of any meeting when the committee reviews the performance of the auditor.

The group's system of internal control and its effectiveness is monitored and reviewed regularly by the board, the board audit committee, the internal audit function, and management, and the board believes that the company has maintained throughout the year and up to the date of approval of the Annual Report and Accounts an effective embedded system of internal control and has complied with the Turnbull guidance.

Social, environmental and ethical matters

The company has for many years recognised the benefits that accrue from responsible employment, environmental and community policies which are also described elsewhere in this report. Identifying and managing risks to the company's reputation has been described above and has a high priority, and the assessment of our Boots brand product suppliers against the company's code of ethical trading, described on page 18, addresses one of the most important of them. The evaluation of the company's performance in social, environmental, community and ethical matters is ongoing.

Going concern

Having considered group cash flow forecasts and strategic plans, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors' remuneration report

This report has been prepared in compliance with the Directors Remuneration Report Regulations 2002 (the 'Regulations') and Schedule B of the Combined Code annexed to the Listing Rules of the Financial Services Authority.

The remuneration committee (the 'Committee')
The members of the Committee during the year were:

Dr M P Read (chairman from 4th November 2003)
J Bennink
Dr J G S Buchanan (resigned 24th July 2003)
J B McGrath (resigned 15th September 2003)
T C Parker (appointed 28th January 2004)
H Ploix
Sir Nigel Rudd (chairman until 15th September 2003)

The main responsibilities of the Committee are summarised in the corporate governance statement on page 30. The Committee appointed Towers Perrin to provide it with external advice in determining the appropriate remuneration, terms and conditions and bonus schemes for directors, and to assist it in reviews of remuneration policies and practices. Mr S G Russell, former chief executive, Mr R A Baker, the chief executive, Mr A P Smith, the former human resources director, and Mr P Bateman, human resources and operations director, have also advised the Committee when requested. Towers Perrin has also provided the Committee and the company with market data for executives and senior managers, and consulting support in reviewing pensions, long term incentive plans, and understanding current remuneration trends. The Committee is conscious of the need to ensure that no conflict of interest arises as a result of Towers Perrin advising both it and the company, and keeps that under review, but believes that the benefit of consistent advice and policies throughout the company outweigh the possible problems arising from such dual appointment. A summary of the terms under which Towers Perrin provide services to the Committee and to the company are available upon request from the company secretary and on the company's website.

Remuneration policies
In determining remuneration policies for the current, following and subsequent financial years, the Committee has followed the provisions of Section B of the Combined Code. Policy in relation to remuneration, and practice, inevitably evolves over time and the policy with regard to future years will be subject to ongoing review by the Committee.

In 2002 the Committee positioned executive directors' salaries and non-executive directors' fees at the market median in the light of independent assessment of market practices, and has done so in respect of directors appointed subsequently. The Committee adopted a policy that executive directors' salaries (assuming no change in responsibilities) would be increased annually in line with inflation, subject to total pay being benchmarked against the market every three years and intended that over time the proportion of executive directors' total remuneration that is dependent upon performance would become greater. The Committee has also introduced a personal performance measure into the executive directors' short term bonus scheme, in addition to the business performance tests.

In 2003 executive directors salaries were generally increased in line with inflation, but the salaries of Messrs. Bateman and Dodd were increased with effect from 1st December 2003 when Mr Bateman assumed responsibility for HR in addition to his existing responsibility for operations, and Mr Dodd, the chief financial officer, also assumed responsibility for property, to reflect those additional responsibilities.

The Committee has now determined that it is appropriate to undertake a thorough review of executive directors' remuneration, including bonus and incentive schemes, and will consult fully with shareholders, with a view to taking any proposals that require shareholder consent to the 2005 AGM. In the meanwhile the Committee decided, pending the outcome of that review, to make as few changes as possible to the executive directors bonus and incentive schemes in 2004/05. Accordingly, with one exception, the Committee has decided to operate the short term bonus scheme, the Long Term Bonus Scheme ('LTBS') and the Executive Share Option Plan on a similar basis to that operated in 2003/04. The exception relates to retest conditions in respect of share options. The Committee is mindful of the views of investors in respect of the retesting of the performance condition attached to the exercise of executive share options, and has decided that, in respect of any options granted in 2004/05, only one retest will be permitted, as opposed to the three retests currently permitted under the rules, and this retest will take place at the end of the fifth year, if the performance condition is not met after year three. In making this decision, the Committee has taken into account the announcement of accelerated investment in Boots The Chemists announced by the company on 26th March 2004, which will depress earnings per share in the short term in order to deliver medium term improvements in the company's performance.

The Committee's policy on termination of executive directors service contracts is described on page 34, and will be reviewed during the year as part of the review of service contracts.

The Committee believes that performance-related pay should form a significant proportion of executive directors' remuneration. In broad terms, if the group meets its target levels of performance then performance-related pay is likely to account for approximately 55% of the chief executive's remuneration (approximately 60% initially due to the grant of options of three times annual salary referred to on page 35) and 51% of that of the other executive directors. For top decile performance, performance-related pay is likely to account for a greater percentage – up to 75% for the chief executive and 73% for the other executive directors, depending on share price growth from the start of the performance period to the end. The actual benefit enjoyed by directors under the LTBS and under the Executive Share Option Plan will depend upon the company's share price, and cannot therefore be determined in advance. Share awards under the LTBS are satisfied by the transfer of shares purchased in the market by the Boots Employee Trust at various prices, usually shortly after the commencement of the performance period, but currently the trust holds surplus shares and no shares have been purchased for several years.

Non-executive directors do not participate in any bonus or share option schemes.

Bonus schemes provide an opportunity for executive directors and senior managers to receive additional rewards, if and only if, personal and business performance meets specified objectives and targets. The way that business performance is measured for bonus and share option schemes for executive directors and senior managers flows from, and is consistent with, business strategy, and with the board's governing objective of maximising the value of the company for the benefit of shareholders and is described below.

The short term executive bonus scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable forecasts derived at the beginning of the year from strategic plans, and also rewards personal performance. The maximum short term bonus that can be earned is (in the case of the chief executive) 100% of base salary, and (for all other executive directors) 75%. One third of the available bonus depends on individual performance against personal targets, and two thirds depends upon business performance targets for operating profit (one-third of the available bonus), sales and return on capital (one-sixth each). Achieving the stretch targets set by the Committee on all business measures would generate a bonus of 75% of the maximum bonus available for those measures. The business targets have been chosen for their relevance in driving short term performance of the business.

The Long Term Bonus Scheme provides executive directors with a maximum potential bonus award (MPBA) worth up to 125% of base salary, and provides a direct link between the pay of executive directors and the creation of value for shareholders by rewarding directors for the company's performance in terms of total shareholder return (TSR) over a three or four-year performance period relative to a peer group of ten other leading companies which the Committee consider to be appropriate comparators by virtue of their size and markets in which they operate. TSR was chosen as the appropriate performance measure for the LTBS as it aligns the interests of the executive with the actual return received by shareholders. TSR measures the return to shareholders in terms of share price movement and the value of dividends as if reinvested when paid. It is derived, using data from the FTSE TRI index, by calculating the percentage growth in the index during the performance cycle based on the average of the index for the quarter preceding the commencement and the average of the index for the final quarter. The Committee believes this to be a transparent and well recognised way of doing so.

For the performance cycles which commenced in 1999 and thereafter a MPBA is calculated for all executive directors by multiplying the basic annual salary at the beginning of the cycle by a factor of 125%. The MPBA is then expressed in share units using the average share price over the previous three months. At the end of the performance cycle a percentage of the MPBA is gained based on the following scale:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
% of MPBA gained	100	80	64	48	36	24	Nil	Nil	Nil	Nil	Nil

The value of the award is affected by share price movement over the performance period. Performance cycles commence on 1st April. The performance cycles that commenced in 1999 and 2000 were four-year cycles. For these performance cycles, one half of the award is paid in cash after the end of each performance cycle and one half in shares. The value of the cash bonus is calculated by multiplying one half of the number of earned share units by the average share price over the last three months of the performance cycle, as derived from the Daily Official List of the London Stock Exchange.

No performance cycle commenced in 2001 and the performance cycles which commenced in 2002 and thereafter are three-year cycles. For these cycles the whole of the award is payable in shares.

Directors who join the company participate pro rata in performance cycles that have more than one complete year to run, but the Committee decided in the case of Mr Baker to calculate the MPBA for those performance cycles using the average share price prior to the date of his joining or the average share price for the three months prior to the commencement of the performance cycle whichever was the higher, resulting in a lower MPBA than would otherwise have been the case.

The peer group comprises those companies that the Committee considers provide the best comparators for performance given the mix of businesses carried on by the company, and the peer group is reviewed before each performance cycle to maintain its relevance. For the three-year period from 1st April 2004 the relevant peer group is:

Alliance UniChem	Reckitt Benckiser
Dixons	J Sainsbury
Great Universal Stores	Smith & Nephew
Kingfisher	Tesco
Marks & Spencer	WH Smith

Dixons has now replaced Debenhams in the peer group following the acquisition of Debenhams by Baroness Retail Consortium and its subsequent delisting.

Under the Executive Share Option Plan executive directors (and other employees) can be granted options to subscribe for ordinary shares in the company. The maximum number of options that can be granted under the plan to any executive director in any financial year of the company is options having an exercise price of twice the annual basic salary of the director. Grants are not normally expected to exceed one times annual salary. Options granted to executive directors must be subject to the satisfaction of a performance condition.

The Executive Share Option Plan aligns returns to shareholders with reward to executives but only if share price growth is achieved and if a performance target is met. The value of the options is directly linked to share price movement. The condition imposed in respect of all options granted to date is average annual growth in earnings per share (EPS) over the relevant period at least equal to the increase in the index of retail prices plus 3% calculated as follows: Base EPS is the EPS for the financial year preceding the performance cycle. An EPS target is calculated each year by applying the following formula: Base EPS x (100 + increase in RPI + y) where y is 3 in year one, 6 in year two and 9 in year three and so on. Target EPS for the performance cycle is determined by taking the average of the annual EPS targets during that cycle.

If the average of the actual EPS over the performance cycle equals or is greater than the target EPS, the performance condition is met. If the performance condition is not met, then for options granted prior to 2004/05 performance is re-tested annually until the end of the sixth year using the same methodology. If the performance condition has still not been met at the end of the sixth year, the options lapse. For options granted in 2004/5 if the performance condition is not met at the end of the third year then only one retest at the end of the fifth year will be permitted, and if the performance condition has not been met by then, the options will lapse. The EPS performance measure in the share option scheme was chosen because it provides an absolute (as opposed to relative) financial measure of company performance and complements the TSR performance measure in the LTBS. RPI is taken from the index published in March each year, and EPS is calculated in accordance with FRS14 'Earnings Per Share' which the Committee believes to be a transparent and well recognised way of doing so.

The Committee believes that share ownership provides an effective way to align the interests of shareholders and executives. For all performance periods commencing on or after 1st April 2002 the whole of an executive director's long term bonus is payable in shares of the company; the executive directors participate in a share option plan, and the Committee has adopted a policy of requiring executive directors over time to achieve a holding in the company's shares having a value equivalent to their base salary.

Share options granted under the SAYE share option scheme are not subject to performance conditions and, given the 'all employee' nature of the scheme and its revenue-approved status, it would not be appropriate to do so. No SAYE share option grants have been made since 1999.

It is the practice of the board to maintain contact where appropriate with its major shareholders about remuneration issues.

Non-executive directorships

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to one such appointment where no conflict of interest arises, and to retain the fees received. None of the executive directors currently holds any such appointment.

Contracts of service

The chairman, Sir Nigel Rudd, has and the previous Chairman, Mr J B McGrath (who retired as Chairman and from the board on 15th September 2003), had an agreement with the company dated 19th March 2004 and 18th May 2001 respectively relating to their services as Chairman. Mr McGrath's appointment was and Sir Nigel Rudd's appointment is terminable by either party without notice or compensation.

Each of the other non-executive directors has a written letter of appointment with the company, also terminable by either party without notice or compensation.

Each director is required to stand for reappointment every three years and may be required to stand for reappointment at an earlier date in order to satisfy the provisions in the company's articles of association that not less than one third of the board seek reappointment at each AGM. The articles of association of the company contain provisions relating to earlier vacation of office without notice.

Each of the executive directors has a service contract which terminates when the director in question reaches the age of 60. With the exception of Mr R A Baker all executive directors' service contracts are terminable by the company on one years notice and the Committee has determined that one years notice is the appropriate period of notice to be given to an executive director. Exceptionally, however, in circumstances such as the appointment of a chief executive from outside the company, the Committee may consider an initial period of greater security to be appropriate and agree that the one years notice should not be given before the first anniversary of appointment. The Committee took this view in respect of the appointment of Mr R A Baker, who joined the company as chief executive on 15th September 2003. Mr Baker's contract will be terminable on one years notice from 15th September 2004.

Details of the contracts of executive directors who served during the year are as follows:

	Date of contract	Unexpired term	Notice period	Provision for compensation
R A Baker	8th August 2003	1 year rolling from 15th September 2004	1 year[1]	See below
P Bateman	25th July 2002	1 year rolling	1 year	Nil
H Dodd	4th June 2003	1 year rolling	1 year	Nil
S G Russell	25th July 2002	Terminated on 31st May 2003	1 year	Nil
A P Smith	10th April 2001	Terminated on 31st October 2003	1 year	Nil

[1] Notice not to be given before 15th September 2004

With the exception of Mr R A Baker, none of the above contracts contain provisions relating to compensation on termination, and in the event of any service contract being terminated by the company giving less than the contractual period of notice the requirement for the director to mitigate their loss where appropriate has been taken into account in determining any resulting compensation and that remains the policy of the Committee. In the case of Mr R A Baker, however, the company has agreed provisions relating to pay in lieu of notice under which if Mr R A Baker's contract is terminated with less notice than his contract provides, then he will receive 85% of the salary, pension and short term bonus and other benefits he would have received had he been given the notice to which he was entitled under his contract, but without receiving any compensation for any loss of long term incentives or share options.

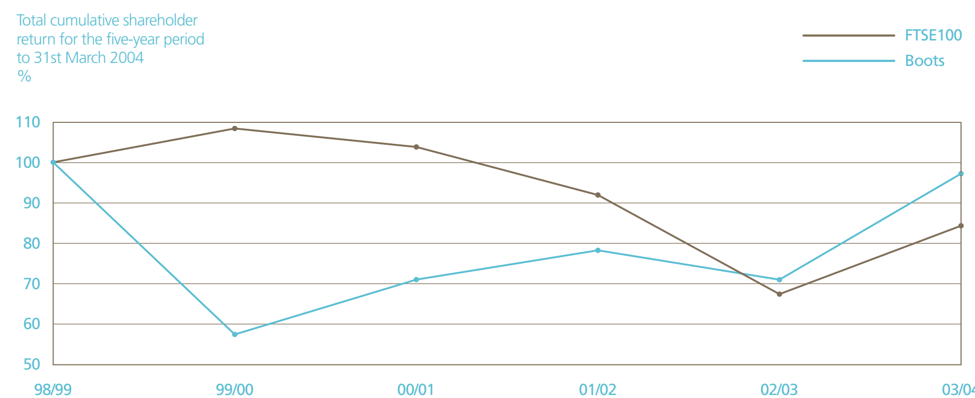
The company announced in December 2002 that it was seeking to appoint a new chief executive to succeed Mr S G Russell. Following that announcement, the Committee agreed terms with Mr S G Russell under which he would, subject to him remaining in office as chief executive until 31st July 2003, or until such earlier date as the company wished him to step down, receive his pay and benefits until 31st July 2003, and then, on leaving the company, receive £757,732 in compensation for loss of office, being the value of one years salary, short term bonus and car allowance, be credited with one years additional service in his pension arrangements and receive the other payments identified on page 37. The company also agreed that he would continue to participate in Long Term Bonus Scheme performance periods ending on or before 31st March 2005. Mr Russell stood down as chief executive on 31st May 2003 and the company has honoured the arrangements made with him. The Committee believes that, in the circumstances, the arrangements were entirely appropriate, and that they enabled Mr Russell to continue to serve as chief executive during a difficult period until the appointment of Mr R A Baker had been announced.

The terms on which Mr Baker joined the company were announced on 1st May 2003. The Committee agreed that he would on joining receive share options of three times his annual salary. Accordingly, a grant of twice annual salary was made under the Executive Share Option Scheme, and a grant of once times salary under his individual option plan, an arrangement identical in all respects to the Executive Share Option Scheme, made pursuant to paragraph 13.13A of the Listing Rules, and details of those arrangements are set out on page 40. It was also agreed with Mr Baker that he would receive £400,000 compensation for loss of his part vested future stock grants from Asda (payable in two instalments and repayable if he should leave the company's employment of his own volition within two years) and £244,375 to compensate him for the proportion of his projected short term bonus with Asda that related to the period before he left Asda's employment. He was also guaranteed a minimum bonus under the short term bonus scheme for 2003/04 of 50% of salary earned in that year to reflect the fact that most of the plans for the second half of that year were in place before he joined, although in fact the bonus actually earned as a result of the company's performance was greater than the sum guaranteed. It was also agreed that the company would meet the reasonable costs of relocation. The Committee considered these arrangements were necessary to facilitate the recruitment of Mr Baker in the unusual circumstances in which the recruitment took place.

On 31st October 2003, Mr Smith resigned from the board following his redundancy on the combination of the roles of HR director and group operations director, and the appointment of Mr Bateman to that post, and received £526,246 compensation for loss of office, being the equivalent of ten months salary, a redundancy payment, and the estimated value of other benefits, including short term bonus, that he would have received had he been given ten months notice. Mr Smith will participate (pro rata) in the Long Term Bonus Scheme performance periods ending on or before 31st March 2005, and his pension arrangements were credited with ten months additional service. Mr Smith and certain of his dependants also agreed with the company to surrender their accrued entitlements under the unfunded unapproved Retirement Benefit Scheme, in which Mr Smith had participated since he joined the company for £352,512, being the sum agreed by actuaries as the value of those benefits. In addition the company met the cost of Mr Smith's receiving legal and financial advice and the cost of providing life cover for ten months equivalent to that to which he would have been entitled under the funded unapproved death benefit scheme in which he participated.

Details of the payments paid to Mr Russell and Mr Smith upon termination of their contracts are set out in the emoluments table on page 37.

Performance graph The following graph, required by the Regulations, shows the total shareholder return over the five-year period to 31st March 2004 for the company's shares and the FTSE100 index. The FTSE100 is considered to be an appropriate index for comparison as the company forms part of that index, investors in the company are likely to regard other FTSE100 companies as alternative investments, and investors are familiar with it.



The following table sets out dilution information for options under discretionary and non discretionary schemes for the year and for the previous nine years in accordance with the best practice suggestion contained in the NAPF corporate governance policy.

		Options over new shares outstanding at period start	Options granted over new shares	Options exercised over new shares	Options lapsed over new shares	Obligation transferred to QUEST (purchased shares)	Options outstanding over new shares at period end	Issued share capital[1] at period end	Options outstanding as % of issued share capital
1994/95	– SAYE	10,906,780	3,054,746	1,594,018	520,863		11,846,645	948,922,864	1.248
	– Exec	4,558,000	1,285,000	807,500	200,000		4,835,500	948,922,864	0.510
	– Total	15,464,780	4,339,746	2,401,518	720,863		16,682,145	948,922,864	1.758
1995/96	– SAYE	11,846,645	2,228,376	1,469,013	1,300,909		11,305,099	953,784,198	1.185
	– Exec	4,835,500	0	1,297,000	257,500		3,281,000	953,784,198	0.344
	– Total	16,682,145	2,228,376	2,766,013	1,558,409		14,586,099	953,784,198	1.529
1996/97	– SAYE	11,305,099	3,515,062	1,320,113	680,459		12,819,589	906,070,964	1.415
	– Exec	3,281,000	0	953,000	70,000		2,258,000	906,070,964	0.249
	– Total	14,586,099	3,515,062	2,273,113	750,459		15,077,589	906,070,964	1.664
1997/98	– SAYE	12,819,589	5,209,165	1,648,199	1,001,787		15,378,768	912,910,817	1.685
	– Exec	2,258,000	0	1,357,500	22,500		878,000	912,910,817	0.096
	– Total	15,077,589	5,209,165	3,005,699	1,024,287		16,256,768	912,910,817	1.781
1998/99	– SAYE	15,378,768	4,169,672	1,870,144	917,512		16,760,784	915,194,961	1.831
	– Exec	878,000	0	414,000	0		464,000	915,194,961	0.051
	– Total	16,256,768	4,169,672	2,284,144	917,512		17,224,784	915,194,961	1.882
1999/00	– SAYE	16,760,784	6,500,755	61,354	3,046,961	20,153,224	0	899,306,315	0.000
	– Exec	464,000	0	50,000	0		414,000	899,306,315	0.046
	– Total	17,224,784	6,500,755	111,354	3,046,961	20,153,224	414,000	899,306,315	0.046
2000/01	– SAYE	0	0	0	0		0	899,514,815	0.000
	– Exec	414,000	0	208,500	0		205,500	899,514,815	0.023
	– Total	414,000	0	208,500	0		205,500	899,514,815	0.023
2001/02	– SAYE	0	0	0	0		0	894,617,815	0.000
	– Exec	205,500	1,893,843	123,000	0		1,976,343	894,617,815	0.221
	– Total	205,500	1,893,843	123,000	0		1,976,343	894,617,815	0.221
2002/03	– SAYE	0	0	0	0		0	815,084,397	0.000
	– Exec	1,976,343	2,095,519	17,500	90,362		3,964,000	815,084,397	0.486
	– Total	1,976,343	2,095,519	17,500	90,362		3,964,000	815,084,397	0.486
2003/04	– SAYE	0	0	0	0		0	775,907,597	0.000
	– Exec	3,964,000	1,891,857	62,500	1,092,078		4,701,279	775,907,597	0.606
	– Total	3,964,000	1,891,857	62,500	1,092,078		4,701,279	775,907,597	0.606

[1]Issued share capital at period end includes shares (if any) that have been repurchased before, but not cancelled until after, the year end.

Auditors' report The auditors are required to report on information contained in the following section of the report with the exception of directors' shareholdings.

Directors' remuneration 2003/04 Analysis of emoluments and short term bonuses are shown below, together with payments made to Mr S G Russell and Mr A P Smith on termination of employment. Details of long term bonuses are shown on pages 38 and 39, outstanding share options and gains on share options are shown on pages 39 and 40 respectively, shareholdings and pension entitlements on page 41.

Short term executive bonus scheme Performance against business targets during the year was such that a bonus equal to 80.26% of salary was earned by Mr Baker, and 56.45% of salary was earned by Messrs Bateman and Dodd.

Other benefits Executive directors are entitled to a company car, or payment in lieu, sick pay, holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies. Mr R A Baker, Mr P Bateman and Mr H Dodd participate and Mr A P Smith participated in a funded unapproved death benefit scheme which provides benefits on death comparable to those contained in the company's approved pension schemes in respect of income above the revenue income 'cap'. Mr J B McGrath was provided with the use of a car, driver and fuel for use when travelling on the company's business, and when travelling between his residence and the company's premises, and Sir Nigel Rudd is reimbursed the expenses that the Committee consider reasonable for providing his own car and driver whilst travelling on the company's business.

Analysis of directors' emoluments An analysis of directors' emoluments relating to the salary and fees, short term executive bonus and other benefits (other than share options, LTBS and pensions) for the year to 31st March 2004 is shown below:

£000	Salaries and fees	Short term bonuses	Other benefits	Compensation for loss of office	Commutation of accrued unapproved pension entitlements	Other payments on termination	Total 2004	Total 2003
R A Baker (from 15th September 2003)	341	273	472[1]	–	–	–	1,086	–
P Bateman	317	179	82[2]	–	–	–	578	355
J Bennink	35	–	–	–	–	–	35	32
G N Dawson (from 15th September 2003)	28	–	–	–	–	–	28	–
H Dodd	373	211	17	–	–	–	601	446
T C Parker (from 28th January 2004)	7	–	–	–	–	–	7	–
H Ploix	37	–	–	–	–	–	37	32
Dr M P Read	37	–	–	–	–	–	37	32
Sir Nigel Rudd (deputy chairman until appointed chairman on 15th September 2003)	181	–	–	–	–	–	181	55
Dr J G S Buchanan (resigned 24th July 2003)	17	–	–	–	–	–	17	34
B Clare (resigned 31st January 2003)	–	–	–	–	–	–	–	2,142[3]
F M Harrison (resigned 6th November 2002)	–	–	–	–	–	–	–	19
J B McGrath (chairman until retirement from the board on 15th September 2003)	375	–	2	–	–	–	377	251
K S Piggott[4] (retired from the board on 31st December 2002)	–	–	–	–	–	–	–	361
S G Russell (resigned 31st May 2003)	206	–	7	758	–	131[5]	1,102	786
A P Smith[6] (resigned 31st October 2003)	166	–	11	526	353	46	1,102	369
	2,120	663	591	1,284	353	177	5,188	4,914

[1]Mr R A Baker's other benefits include £200,000 and £244,375 compensation for the loss of his part vested Asda share options and short term bonus respectively, and £17,422 being the cost of legal advice met by the company.

[2]Mr P Bateman's other benefits include £60,000 in respect of relocation expenses relating to the sale of his former home in Brussels.

[3]Mr B Clare's salary for 2003 Included nine months salary in lieu of notice and £67,500 in respect of short term bonus. He and certain of his dependants surrendered their entitlements under the unfunded unapproved retirement benefit scheme, and received a total of £1.2m being the actuarial value of these benefits. The company also met the cost of certain legal and financial advice given to Mr B Clare.

[4]Mr K S Piggott remained an employee of the company until 31st December 2003 and received, in addition to the sums stated in this table, a salary of £135,938 and short term bonus of £38,579 in respect of the period from 1st April 2003 to 31st December 2003, and a salary of £45,313 and short term bonus of £11,328 in respect of the period from 1st January 2003 to 31st March 2003.

[5]Mr S G Russell's other payments on termination include accrued holiday pay of £71,308, a retirement payment of £42,792, and £16,500 being the cost of legal advice met by the company.

[6]Mr A P Smith's compensation for loss of office included ten months salary in lieu of notice and 201,167 in respect of short term bonus. He and certain of his dependants surrendered their entitlements under the unfunded unapproved retirement benefit scheme, and received a total of £352,512 being the actuarial value of these benefits. The company also met the cost of certain legal, outplacement and financial advice given to Mr A P Smith and of ten months life cover.

The aggregate of directors' emoluments before compensation for loss of office, commutation of pension entitlements and other payments on termination was £3,375,000 (2003 £3,493,000).

The base salaries of executive directors at the year end and at 26th May 2004, the latest practicable date before the printing of this report were as follows:

	At 31st March 2004	At 26th May 2004
R A Baker	£625,000	£644,000
H Dodd	£400,000	£400,000
P Bateman	£350,000	£350,000

Long term bonus scheme ('LTBS')

TSR performance measure An explanation of the TSR performance measure is shown on page 33.

Entitlements based on completed long term bonus periods

Outcome of the 2000/2004 performance cycle At the end of the cycle for the four-year period up to 31st March 2004 the relevant peer group was identical to that shown on page 33 except for the inclusion of Debenhams instead of Dixons.

For this cycle, the company achieved position five in the league table. Accordingly, the long term bonus units earned by executive directors including amounts relating to periods of service before appointment to the board and service after retiring from the board are set out in the following table and will be paid in June 2004. For serving directors, half will be paid in cash and the remaining half will be paid as a grant of a share award as shown below. The share price used to determine the MPBA was 515p (2002/03 927p) and the share price used to determine the value of the cash payment was 711p (2002/03 602p).

2003/04 Number of shares	MPBA 2000/04	MPBA 1999/03	Earned Units 2000/04	Earned Units 1999/03	Share award 2000/04	Share award 1999/03	Cash 2000/04 £000	Cash 1999/03 £000
R A Baker	–	–	–	–	–	–	–	–
P Bateman	33,107	10,580	11,919	–	5,960	–	42	–
H Dodd	42,476	11,799	15,291	–	7,646	–	54	–
S G Russell	121,359	50,566	43,689	–	–	–	311	–
A P Smith	38,653	12,716	13,915	–	–	–	99	–
	235,595	85,661	84,814	–	13,606	–	506	–

During the year, Mr K S Piggott, a former executive director, earned 26,213 long term bonus units. The award will be paid wholly in cash in June 2004, amounting to £186,213.

Share awards in respect of prior periods

For cycles ending in 2001/02 and earlier the entitlement to exercise the half paid as a share award was deferred, and only vested in the employee after three further years' employment. For cycles ending in 2002/03 and thereafter, share entitlements may be exercised immediately after grant for a period of twelve months.

Details of the share awards which have been granted during the year in respect of the cycle which was completed at the end of the previous financial year, and deferred share awards conditionally granted for previous cycles, are shown below. Shares that vested in the year and the cumulative total of shares outstanding at 31st March, or date of retirement are also shown below:

Number of shares	Granted 2003/04	Granted[1] 2001/02	Granted[1] 2000/01	Exercised total	Cumulative total
R A Baker	–	–	–	–	–
P Bateman	–	–	–	–	–
H Dodd	–	–	–	–	–
S G Russell	–	–	17,858	–	17,858[2]
A P Smith	–	–	3,041	(3,041)	–
	–	–	20,899	(3,041)	17,858

[1]granted on deferred basis
[2]date of resignation

Part of Mr A P Smith's 2000/01 entitlements accrued before he was appointed to the board on 1st April 2001.

Mr Russell exercised his 2000/01 entitlement during the year after ceasing to be a director of the company.

The value of the award is not determined until the vesting date, which for the entitlements granted in 2001/02 is June 2004.

The value of share awards in respect of prior periods which have vested and been exercised in the year as disclosed above is shown in the table below:

	Date interest awarded	Share value at date of award	Share value at vesting 2004	Share value at exercise 2004	Value received 2004 £000	Value received 2003 £000
R A Baker	–	–	–	–	–	
P Bateman	–	–	–	–	–	–
H Dodd	–	–	–	–	–	–
S G Russell	1st April 1996	599p	626p	664.5p	119	73
A P Smith	1st April 1996	599p	626p	645.5p	20	9
					139	82

Performance conditions are described on page 33. The value of the shares received is based on the middle market price on the date of exercise of the share awards, and is the value upon which liability to income tax and National Insurance is calculated.

During the year, Mr Clare, Mr Piggott and Mr Thompson, all former directors, exercised share awards of 7,757, 7,058 and 18,140 respectively. The value received at the exercise date was £55,075, £44,944 and £121,175 respectively.

Potential entitlements under incomplete long term bonus periods
The MPBA (in shares) for cycles which commenced on 1st April 2002 and 1st April 2003 are shown below:

	MPBA At 31/03/03 2002-2005	MPBA Awarded in year 2003-2006	Total
R A Baker	61,808	105,517	**167,325**
P Bateman	51,424	68,681	**120,105**
H Dodd	69,225	82,418	**151,643**
K S Piggott	71,697	–	**71,697**
S G Russell	118,671[1]	141,484[2]	**260,155**
A P Smith	54,391[1]	65,018[2]	**119,409**
	427,216	463,118	**890,334**

[1] MPBA subsequently reduced pro rata to reflect an additional one years service in the case of Mr S G Russell and ten months service in the case of Mr A P Smith.
[2] lapsed upon cessation of employment.

The share price used to calculate the 2002-2005 and 2003-2006 MPBA's was 632p and 546p (617p in respect of Mr Baker) respectively. The outcome for these cycles and the related share awards will not be determined until June 2005 and June 2006 respectively. The share prices when the awards were first made were 672.5p on 1st April 2002 and 528p on 1st April 2003. Performance conditions are set out on page 33.

Share Options
The Executive Share Option Plan An explanation of the way the plan operates is shown on pages 33 and 34.

The exercise price of options granted under the scheme is the average of the market value of the shares in the three days preceding the grant of an option. The rules of the plan allow the exercise of options in the period between three and ten years from grant, subject to prior satisfaction of any performance condition stipulated at the time of grant. Upon exercise, the benefit received by the participant is derived from the increase in the market value of the company's shares in the period between grant and exercise. Gains arising from the exercise of share options are set out below. Executive share options may be exercised before the expiry of the initial three-year period following termination of employment by reason of redundancy or retirement or in such other circumstances of termination of employment as the Committee approves, subject to satisfaction of the performance conditions over the shorter period.

Options have been granted as follows:

Number of shares	2001/02 Awarded on 12/09/01 Option price 630p Exercisable between 12/09/04 and 11/09/11	2002/03 Awarded on 18/06/02 Option price 635p Exercisable between 18/06/05 and 17/06/12	Total at 01/04/03	2003/04 Awarded on 23/06/03 Option price 606p Exercisable between 23/06/06 and 22/06/13	2003/04 Awarded on 18/09/03 Option price 687p Exercisable between 18/09/06 and 17/09/13	Exercised 03/04	Lapsed 03/04	Total 03/04
R A Baker	–	–	–	–	181,950	–	–	181,950
P Bateman	26,428	40,944	67,372	49,504	–	–	–	116,876
H Dodd	–	55,118	55,118	59,405	–	–	–	114,523
S G Russell	91,269	94,488	185,757	–	–	–	–	185,757
A P Smith	39,682	43,307	82,989	46,864	–	–	–	129,853

All options are subject to the performance conditions set out on page 33.

During the year, share options held by Mr Clare (114,610) and Mr Thompson (150,193), both former directors lapsed. Mr K S Piggott held options over 112,641 shares at 31st March 2004.

Outcome of performance tests as at 31st March 2004
The performance test for options granted in 2001 (the first grant) was not met as at 31st March 2004.

Individual option plan – Mr R A Baker (the 'Plan')
The arrangements made with Mr Baker on joining are described on pages 34 and 35. On 18th September 2003 he received, as part of those arrangements, a grant of options of once his salary of £625,000 amounting to 90,975 shares at a price of 687 pence (the average of the market price for the three days preceding the grant) on terms identical to the options granted in 2003/4 under the Executive Share Option Plan, exercisable between 18th September 2006 and 17th September 2013 (subject to satisfaction of the performance condition). The provisions (if any) in the Executive Share Option Scheme (which also relate to the Plan) relating to the following matters cannot be altered to the advantage of Mr Baker without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange or regulatory treatment for participants in the Plan or for the company operating the scheme or for members of its group):

- The persons to whom, or for whom, securities, cash or other benefits are provided under the Plan (the 'participants').
- Limitations on the number or amount of securities, cash or other benefits subject to the Plan.
- The maximum entitlement for any one participant.
- The basis for determining a participant's entitlement to, and the terms of, securities, cash or other benefit to be provided and for the adjustment thereof (if any) in the event of a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital.

The Plan is not pensionable, and as previously stated, the Committee determined that the arrangements were necessary to facilitate the appointment of Mr Baker in unusual circumstances.

Mr Baker became eligible to receive benefits under the Plan on joining the company on 15th September 2003. No further grants can be made under the Plan. The performance condition is identical to that applied to grants under the Executive Share Option Plan, i.e. average annual growth in earning per share of at least RPI plus 3% over the performance period as described on pages 33 and 34.

The Boots SAYE Share Option Scheme
Under a savings-related scheme options may be offered to employees, including executive directors, enabling employees to subscribe for ordinary shares in the company at approximately 80% of the market price of those shares at the date of grant, subject to participation in a designated savings scheme. No options have been granted since July 1999, but certain executive directors hold options under that scheme as follows:

		At 31 March 2003	Awarded	Exercised	Lapsed	At 31 March 2004	Exercise price	Earliest date of exercise	Expiry date
S G Russell	@624p	2,704	–	–	2,704	–	–	–	–

Mr K S Piggott, a former director, held share options over 324 shares at 624p at 31st March 2004. Options over 341 shares at 808p lapsed during the year.

The market price of the company's shares at 31st March 2004 was 619.5p and the range of market prices during the year was 524.5p to 752.5p.

Directors' interests in share options on 26th May 2004 remain unchanged.

Gains on share options
Gains on share options represent the number of shares under options which have been exercised, valued at the difference between the market price at the date of exercise and the exercise price paid.

The total gains on share options exercised during the year was £nil (2003 £nil).

All Employee Share Ownership Plan (AESOP)
In the period to 31st March 2001 Boots established an AESOP to enable staff, including executive directors, to become shareholders in the company. Under the free share part of the plan, the executive directors were each given the opportunity to be awarded 40 shares (39 in 2003), the same number as any employee with average contracted hours of 35 or more per week. All the eligible executive directors opted to receive this award. Shares in this part of the AESOP must normally be held in trust on behalf of the employees for at least three years.

In the period to 31st March 2002 Boots implemented the partnership share element of the plan, giving employees including executive directors the opportunity to purchase shares from their pre-tax income, subject to a maximum of £125 per month, with effect from April 2002. Shares purchased under the partnership plan are included in total shareholdings in the table on page 41.

Directors' shareholdings
The beneficial interests of the directors in office at 31st March 2004 and their families in the share capital of the company at 31st March 2004 are shown below. The company's register of directors' interests, which is open to inspection, contains full details of directors' interests in the company's shares.

Shareholdings	Ordinary shares 2004	Ordinary shares 2003
R A Baker	9,260[1]	–
P Bateman	383	173
J Bennink	4,126	–
G N Dawson	2,000	–[1]
H Dodd	1,203	1,000
T C Parker	6,340	–[1]
H Ploix	3,767	1,697
Dr M P Read	5,500	3,500
Sir Nigel Rudd	47,000	2,000

[1]at date of appointment

Included within the ordinary shares held are 203 shares purchased by both Mr P Bateman and Mr H Dodd respectively under the AESOP Share Investment Plan.

Each executive director was also deemed, as a potential beneficiary, to have an interest in the 1,051,363 (2003 1,423,769) ordinary shares of the company held by Boots ESOP Trust Ltd, on behalf of Boots Employee Trust, established to facilitate the operation of the company's executive bonus schemes and in 11,176,287 (2003 12,959,693) ordinary shares of the company held by Boots (QUEST) Trustee Limited, on behalf of Boots Qualifying Employee Share Trust, established in connection with the company's UK all-employee SAYE Share Option Scheme and in 3,582,746 (2003 2,465,201) ordinary shares of the company held by Boots Share Plan Trustees Limited, established to hold shares for employees in connection with the company's All Employee Share Ownership Plan (the AESOP). No director holds any loan capital.

The personal shareholdings of directors in office at 31st March 2004 remain unchanged on 26th May 2004, other than each of Mr P Bateman and Mr H Dodd now hold a further 21 shares purchased under the partnership share element of the AESOP, and the number of shares held by Boots (QUEST) Trustee Limited, the Boots ESOP Trust Ltd and the Boots Share Plan Trustees have reduced, thereby reducing directors' deemed interest.

Pension entitlement
All executive directors in office at 31st March 2004 receive pension entitlements from the company's principal UK defined benefit pension scheme, referred to in note 26, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary at normal retirement age, subject to completing 20 years service and subject to revenue limits. Non-executive directors are not members of any company pension arrangements. Pension entitlement is calculated only on the salary element of remuneration.

Those directors who are subject to the earnings cap are also members of an unfunded unapproved pension arrangement which provides similar benefits on basic salary in excess of the earnings cap.

Details of pensions earned by the executive directors in office at 31st March 2004 or at date of retirement are shown below:

£000	Accrued pension at 31st March 2004	Increase in pension during the year to 31st March 2004 gross of inflation	Increase in pension during the year to 31st March 2004 net of inflation	Transfer value of accrued benefits at 31st March 2003	Transfer value of accrued benefits at 31st March 2004	Increase in transfer value of benefits less directors' contributions	Transfer value of net-of-inflation increase in accrued benefits less directors' contributions
R A Baker	11	11	11	–	136	119	119
P Bateman	43	21	21	295	636	326	292
H Dodd	20	12	11	98	257	142	128
S G Russell	404	27	17	7,009	7,616	602	310
A P Smith	56	13	12	504	687	176	134

The total accrued pension entitlement for Mr R A Baker, the highest paid director, at 31st March 2003 was £Nil.

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. Retained benefits from previous employments are taken into account. The increase in accrued pension during the year is after deducting the increase due to inflation, at the rate of 2.8%, on the previous year's accrued pension. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

Mr S G Russell left the board on 31st May 2003 and subsequently retired on 31st July 2003. The year end figures for Mr S G Russell are quoted at his date of retirement.

Mr A P Smith left the company on 31st October 2003 taking a deferred pension in respect of his benefits in the Boots Pension scheme and a payment of £352,512 was made to him in lieu of benefits he had accrued in the unapproved arrangements. The figures at 31st March 2004 relate to approved scheme benefits only.

By order of the board
Dr M P Read
Chairman of the board remuneration committee
26th May 2004

Directors’ responsibilities statement

Company law requires directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit and loss of the group for that period. In preparing those financial statements, directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the members of Boots Group PLC

We have audited the financial statements on pages 46 to 67. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors The directors are responsible for preparing the Annual Report and the directors' remuneration report. As described on page 42, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 27 to 31 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion In our opinion:

– the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 2004 and of the profit of the group for the year then ended; and
– the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

26th May 2004

Directors' report

The directors of Boots Group PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 2004.

Capital reorganisation
During last year a new group holding company was interposed between The Boots Company PLC and its shareholders through a scheme of arrangement. This was effective from 20th January 2003. References throughout the annual report and financial statements to the 'company' refer to Boots Group PLC from 20th January 2003 onwards and prior to that to The Boots Company PLC. The balance sheet and balance sheet items relate to Boots Group PLC.

Principal activities
The group's principal activities during the year were:
– retailing of chemists' merchandise.
– the provision of opticians' and other healthcare services.
– the development, manufacture and marketing of healthcare and consumer products.

Further information on the group's continuing activities is provided in the operational review on pages 8 to 19.

Business review and future developments
A review of group activities during the year, research and development, and likely future developments are dealt with in the introduction, Chairman's statement, chief executive's review and operational review on pages 1 to 19.

Group results
The group profit and loss account for 2004 shown on page 46 includes the following details:

	2004 £m	Restated[1] 2003 £m
Turnover (including share of joint ventures)	**5,326.4**	5,322.4
Profit on ordinary activities before exceptional items and taxation	**544.6**	552.9
Profit on ordinary activities before taxation	**581.0**	492.4

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

Appropriations
The directors recommend the payment of a final dividend of 21.0p per share which, if approved by shareholders, will be paid on 13th August 2004 to shareholders registered on 11th June 2004. When added to the interim dividend of 8.8p paid on 6th February 2004, this makes a total dividend payment for the year of 29.8p per share (2003 28.6p per share). Payment of these dividends requires £226.3m (2003 £230.7m), leaving a profit of £186.3m (2003 £69.3m) retained in the business.

Group structure and operations
On 22nd May 2003, Boots announced the outsourcing of the operations of its D105 warehouse in Nottingham to Unipart and the transfer of transport services management to Tibbet and Britten. The changes were effective on 1st August 2003.

On 15th January 2004, Boots announced the acceleration of its programme to reorganise its Nottingham head office.

On 29th January 2004, Boots announced the outsourcing of the operations of its D82 warehouse in Nottingham to Unipart with effect from 1st April 2004.

Share capital
Details of changes in the share capital are shown in note 22 to the financial statements.

At the annual general meeting on 24th July 2003, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each.

During the year the company entered the market and purchased 38.3 million (2003 78.8 million) shares which have subsequently been cancelled. This represented 4.9% (2003 9.7%) of the shares in issue at the end of the period and the total cost was £259.9m (2003 £462.8m).

At the forthcoming annual general meeting on 22nd July 2004, shareholders will be invited to renew the company's authority to make market purchases. The authority will be limited to the purchase of not more than 76.876 million ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be no more than 5% above the average of the closing mid market quotations for the five business days before the purchase, with the minimum price being the nominal value, exclusive of any expenses payable by the company.

Details of shares held by Boots Qualifying Employee Share Trust, Boots All Employee Share Ownership Plan and Boots ESOP Trust are shown in note 12 to the financial statements.

Shareholders
As at 26th May 2004, the register maintained by the company under Section 211 of the Companies Act 1985 contains a notification to the company that Legal & General Investment Management holds 4.01% of the issued ordinary share capital of the company and Lazard Freres & Co holds 3.00% of the issued ordinary share capital of the company.

Fixed assets
The directors are of the opinion that the market value of the group's properties at 31st March 2004 is 44.5% higher than that stated in the financial statements. It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation gains on properties used for the purpose of the group's trade are expected to be deferred indefinitely or eliminated by capital losses.

Payment of suppliers
The group is a signatory of the Better Payment Practice Code (a copy of the code is available from www.payontime.co.uk). It is the policy of the group to agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

The number of days' purchases outstanding for the group's UK operations at 31st March 2004 was 24 (2003 23 days). The company has no trade creditors.

People
The group continues to involve its people in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are three employee representatives as well as a retired employee. The group's aim for all its people and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The group does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Charitable and political donations
The group made cash donations for charitable and educational purposes in the UK for the year of £2.4m (being £0.7m for education, £0.6m for health, £1.0m for economic development and £0.1m for other charitable purposes) (2003 £3.1m) of which the company made charitable donations of £0.6m (2003 £0.1m). The company made no political payments.

Further information on community investment is shown on page 16.

Directors
Details of directors are shown on page 20. Dr J G S Buchanan, Mr J B McGrath, Mr S G Russell and Mr A P Smith were directors of the company until their resignations on 24th July 2003, 15th September 2003, 31st May 2003 and 31st October 2003 respectively.

Mme H Ploix and Dr M P Read retire by rotation at the annual general meeting in accordance with article 87 of the company's articles of association and offer themselves for reappointment.

Mr R A Baker and Mr G N Dawson, who were appointed as directors on 15th September 2003 and Mr T C Parker, who was appointed as a director on 28th January 2004, retire at the annual general meeting in accordance with article 86 and offer themselves for reappointment.

The performance of each director standing for reappointment has been formally evaluated by the Chairman, regard being had to length of service on the board of each such director and whether they be executive or non-executive, and the Chairman will recommend their reappointment. The board is mindful of the experience brought to the board by the non-executive directors who stand for re-appointment, and believes that each director standing for reappointment continues to demonstrate commitment, to be an effective member of the board, and to contribute to the balance of skills and knowledge and experience identified by the board in the course of its review carried out earlier in the year. The board is satisfied that each of the non-executive directors standing for reappointment is not precluded from devoting sufficient time to his or her duties to the company by reason of their other commitments. Details of directors' roles, responsibilities, achievements and significant external commitments are set out on page 20 and in the AGM notice, which is sent to shareholders with this report.

Information on service contracts and details of the interests of the directors and their families in the share capital of the company at 31st March 2004 are shown in the directors' remuneration report on pages 32 to 41. Copies of the service contracts of executive directors and of the appointment letters of the Chairman and non-executive directors are available for inspection at the company's registered office during normal business hours and at the annual general meeting.

No director has a directorship in common or other significant links with any other director (except in the case of executive directors holding directorships of subsidiary companies of the company).

Auditors
Resolutions to reappoint KPMG Audit Plc as auditors and to authorise the directors to determine their remuneration will be proposed at the annual general meeting.

By order of the board
M J Oliver
Secretary

26th May 2004

Group profit and loss account

For the year ended 31st March 2004	Notes	2004 £m	Restated[1] 2003 £m
Turnover			
Turnover from continuing operations		**5,326.4**	5,087.5
Discontinued operation		**–**	234.9
Turnover: group and share of joint ventures	1	**5,326.4**	5,322.4
Less: share of joint ventures' turnover		**(1.4)**	(2.1)
Group turnover		**5,325.0**	5,320.3
Operating profit			
Operating profit from continuing operations		**551.2**	532.3
Discontinued operation		**–**	22.5
Group operating profit		**551.2**	554.8
Share of operating loss of joint ventures		**(1.1)**	(13.2)
Total operating profit including share of joint ventures	2	**550.1**	541.6
Profit on disposal of fixed assets	3	**32.5**	5.1
Provision for loss on closure of operations	3	**3.9**	(34.5)
Loss on disposal of business	3	**–**	(123.2)
Profit on ordinary activities before interest and taxation	1	**586.5**	389.0
Net interest (payable)/receivable and similar items[2]	5	**(5.5)**	103.4
Profit on ordinary activities before taxation		**581.0**	492.4
Tax on profit on ordinary activities	6	**(167.7)**	(191.9)
Profit on ordinary activities after taxation		**413.3**	300.5
Equity minority interests		**(0.7)**	(0.5)
Profit for the financial year attributable to shareholders		**412.6**	300.0
Dividends paid and proposed	8	**(226.3)**	(230.7)
Retained profit for the financial year	21	**186.3**	69.3

Basic earnings per share	9	**52.9p**	35.8p
Basic earnings per share before exceptionals	9	**48.2p**	45.0p
Diluted earnings per share	9	**52.8p**	35.7p
Diluted earnings per share before exceptionals	9	**48.0p**	44.9p

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).
[2]2003 includes exceptional items (see notes 3 and 5).

Other primary statements of the group

Statement of total recognised gains and losses

For the year ended 31st March 2004	2004 £m	Restated[1] 2003 £m
Profit for the financial year attributable to shareholders	**412.6**	300.0
Revaluation of investment properties	**–**	17.1
Currency translation differences on foreign currency net investments	**(14.8)**	7.5
Total recognised gains and losses for the year	**397.8**	324.6
Prior year adjustment in respect of adoption of FRS5 Application Note G on revenue recognition (note 1(iv))	**(30.0)**	
Total recognised gains and losses since last annual report	**367.8**	

Currency translation differences include tax of £(2.2)m (2003 £(0.3)m).

Currency translation differences are net of gains or losses on currency hedges of £9.9m (2003 £(2.0)m) and associated tax charge of £(2.4m) (2003 £nil).

Note on historical cost profits and losses

For the year ended 31st March 2004	2004 £m	Restated[1] 2003 £m
Reported profit on ordinary activities before taxation	**581.0**	492.4
Realisation of property revaluation surpluses	**15.0**	10.2
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	**1.1**	1.0
Historical cost profit on ordinary activities before taxation	**597.1**	503.6
Historical cost profit retained	**202.4**	80.5

Reconciliation of movements in shareholders' funds

For the year ended 31st March 2004	2004 £m	Restated[1] 2003 £m
Total recognised gains and losses for the year	**397.8**	324.6
Dividends	**(226.3)**	(230.7)
New share capital issued (net of expenses)	**0.3**	(0.3)
Repurchase of shares	**(259.9)**	(462.8)
Goodwill released on disposal of business	**–**	349.3
Net decrease in shareholders' funds	**(88.1)**	(19.9)
Opening shareholders' funds[2]	**1,969.4**	1,989.3
Closing shareholders' funds	**1,881.3**	1,969.4

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).
[2]Originally £1,999.4m before deducting prior year adjustment of £30m.

Balance sheets

31st March 2004	Notes	Group 2004 £m	Restated[1] Group 2003 £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Intangible assets	10	**281.5**	301.3	**–**	–
Tangible assets	11	**1,499.4**	1,516.5	**–**	–
Investments	12	**74.7**	84.7	**1,106.7**	1,387.4
		1,855.6	1,902.5	**1,106.7**	1,387.4
Current assets					
Stocks	13	**690.8**	638.6	**–**	–
Debtors falling due within one year	14	**516.0**	536.6	**1,205.3**	4.6
Debtors falling due after more than one year	14	**165.9**	114.0	**502.6**	–
Current asset investments and deposits	15	**239.1**	293.1	**223.0**	275.0
Cash at bank and in hand		**110.5**	203.4	**–**	24.5
		1,722.3	1,785.7	**1,930.9**	304.1
Creditors: Amounts falling due within one year	16	**(1,135.3)**	(1,155.6)	**(455.2)**	(175.1)
Net current assets		**587.0**	630.1	**1,475.7**	129.0
Total assets less current liabilities		**2,442.6**	2,532.6	**2,582.4**	1,516.4
Creditors: Amounts falling due after more than one year	17	**(382.9)**	(401.8)	**(869.6)**	(315.0)
Provisions for liabilities and charges	20	**(177.2)**	(160.9)	**–**	–
Net assets		**1,882.5**	1,969.9	**1,712.8**	1,201.4

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

31st March 2004	Notes	Group 2004 £m	Restated[1] Group 2003 £m	Company 2004 £m	Company 2003 £m
Capital and reserves					
Called up share capital	21, 22	**193.9**	203.5	**193.9**	203.5
Share premium account	21	**0.3**	–	**0.3**	–
Revaluation reserve	21	**244.2**	260.3	**–**	–
Capital redemption reserve	21	**15.2**	5.6	**15.2**	5.6
Merger reserve	21	**310.8**	310.8	**–**	–
Profit and loss account	21	**1,116.9**	1,189.2	**1,503.4**	992.3
Equity shareholders' funds		**1,881.3**	1,969.4	**1,712.8**	1,201.4
Equity minority interests		**1.2**	0.5	**–**	–
		1,882.5	1,969.9	**1,712.8**	1,201.4

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

The financial statements were approved by the board of directors on 26th May 2004 and are signed on its behalf by:

Richard Baker
Chief Executive

Howard Dodd
Chief Financial Officer

Group cash flow statement

Group cash flow statement

For the year ended 31st March 2004	Notes	2004 £m	2003 £m
Cash inflow from operating activities	23	**637.8**	582.3
Returns on investment and servicing of finance			
Interest paid		**(40.4)**	(16.1)
Interest received[1]		**17.8**	91.9
Dividends paid by subsidiaries to minority interests		**–**	(0.8)
		(22.6)	75.0
Taxation		**(166.2)**	(196.7)
Capital expenditure and financial investment			
Purchase of fixed assets		**(194.2)**	(145.8)
Disposal of fixed assets		**149.6**	118.6
Disposal of own shares		**2.3**	3.1
		(42.3)	(24.1)
Acquisitions and disposals	4	**(2.2)**	358.1
Equity dividends paid		**(229.1)**	(238.3)
Cash inflow before use of liquid resources and financing		**175.4**	556.3
Management of liquid resources			
Decrease in short term deposits		**53.5**	15.8
Financing			
Capital element of finance lease rental agreements		**(5.9)**	(8.1)
Decrease in other borrowings		**(11.0)**	(37.9)
Cash outflow from change in borrowings and lease financing		**(16.9)**	(46.0)
Issue of ordinary share capital (net of expenses)		**0.3**	(0.3)
Repurchase of shares		**(264.6)**	(465.5)
		(281.2)	(511.8)
(Decrease)/increase in cash in the year		**(52.3)**	60.3

[1]Including exceptional interest received of £53.8m in the year to 31st March 2003. In addition £46.8m was received in 2002 in relation to this item.

Cash is defined as cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Reconciliation of net cash flow to movement in net debt

For the year ended 31st March 2004	Notes	2004 £m	2003 £m
(Decrease)/increase in cash in the year		**(52.3)**	60.3
Cash inflow from change in liquid resources	24	**(53.5)**	(15.8)
Cash outflow from change in borrowings and lease financing	24	**16.9**	46.0
Movement in net debt resulting from cash flows		**(88.9)**	90.5
Finance lease additions		**(4.2)**	(1.8)
Increase in value of investment in 10.125% bond 2017		**–**	5.8
Currency and other non-cash adjustments		**(3.9)**	0.3
Movement in net debt during the year		**(97.0)**	94.8
Opening net debt		**(51.5)**	(146.3)
Closing net debt	24	**(148.5)**	(51.5)

Net debt comprises cash, liquid resources, finance leases and all other borrowings.

Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group and company financial statements except as noted below.

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified to include the revaluation of certain land and buildings. However, compliance with SSAP19 ‘Accounting for investment properties’ requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11 to the financial statements.

A separate profit and loss account for the company has not been presented as permitted by section 230 (4) of the Companies Act 1985.

During the year, new requirements on revenue recognition, in the form of an Application Note to FRS5 ‘Reporting the Substance of Transactions’, were issued and became effective for this year’s Report and Accounts. The effects of implementing this Application Note are shown in note 1(iv).

Consolidation

The group financial statements combine the results of the company and all its subsidiaries and joint ventures, to the extent of group ownership and after eliminating intra-group transactions.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Joint ventures are those undertakings, not recognised as subsidiaries, in which the group has a participating interest and are jointly controlled. The group’s share of the results of joint ventures, which are accounted for under the gross equity method, are included in the profit and loss account and its share of their net assets is included in investments in the group balance sheet.

In the company balance sheet, investments in subsidiaries and joint ventures are stated at cost (being the par value of shares issued where merger relief applies) less impairments.

During the comparative year Boots Group PLC was introduced as the new holding company of the Boots Group by way of a Scheme of Arrangement under section 425 of the Companies Act 1985. This was accounted for as a capital reorganisation and merger accounting principles have been applied, as if the company had always been the holding company of the group.

Foreign currencies

The results and cash flows of overseas subsidiaries and the results of joint ventures are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets (net of any related tax effects), are dealt with through reserves.

Where foreign currency hedges are taken out for committed future foreign currency purchases, the fair value of those hedges are not included in the profit and loss account and balance sheet. All other exchange differences are dealt with in the profit and loss account.

The cost of the company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made, except where hedge accounting applies in which case the year end rate is used.

Goodwill and intangible assets

Goodwill on acquisitions comprises the excess of the fair value of the consideration plus any associated costs for investments in subsidiary undertakings and joint ventures over the fair value of net assets acquired. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.

Goodwill arising on acquisitions prior to 1st April 1998 has been set off against reserves. On disposal of such businesses, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal. For subsequent acquisitions goodwill is recognised within fixed assets in the year in which it arises and amortised on a straight line basis over its useful economic life, not exceeding 20 years.

The cost of intangible assets acquired (which are capitalised only if separately identifiable) is not amortised except where the end of the useful economic lives of the acquired intangible asset can be reasonably foreseen. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets (including in particular those being amortised over periods greater than 20 years) is reviewed annually and any impairment in value charged to the profit and loss account.

Tangible fixed assets and depreciation

Depreciation of tangible fixed assets is provided to write off the cost or valuation, less residual value, by equal instalments over their expected useful economic lives as follows:

- Freehold land, investment properties, assets in the course of construction – not depreciated
- Freehold and long leasehold buildings, depreciated to their estimated residual values over their useful economic lives of not more than 50 years
- Short leasehold properties – remaining period of lease when less than 50 years
- Computer equipment including software – 3 to 8 years
- Motor cars – 4 or 5 years
- Other motor vehicles – 3 to 10 years
- Fixtures and plant – 3 to 20 years

Any impairment in the value of fixed assets is recognised immediately.

The group adopted the transitional provisions of FRS15 'Tangible Fixed Assets' to retain the book value of land and buildings many of which were last revalued in 1993 and has not adopted a policy of annual revaluations for the future.

Investment properties are revalued annually and included in the balance sheet at their open market value (adjusted to exclude the benefit of formal lease arrangements with group companies).

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.

Interest is capitalised on tangible fixed assets in the course of construction or development. The capitalisation rate applied depends on whether the construction is financed by a specific borrowing (based on actual interest rate) or whether it is financed by general borrowings (based on the weighted average rate on all non-specific borrowings).

Fixed Asset Investment in Own Shares

Own shares, which have been purchased for the benefit of employees under various incentive schemes, are held as fixed asset investments in the balance sheet. These shares are held in three employee ownership trusts:

- The shares held by the qualifying employee share ownership trust (QUEST) holds shares for the all employee SAYE scheme. They are initially capitalised at the purchase price with the discount given to employees being written off on acquisition.
- Shares owned by the ESOP Trust form part of the Boots Long Term Bonus Scheme for executive directors and senior employees. These shares are capitalised at cost on acquisition and are amortised over the relevant qualifying and service periods of the bonus scheme.
- Shares owned by the all employee share ownership plan (AESOP) are conditionally gifted to all employees employed at a qualifying date and then held in trust for a qualifying service period of not less than three years. These shares are capitalised at cost and subsequently amortised over the relevant qualifying period.

Impairment tests are performed on the carrying value of the shares to reflect any permanent diminution in value.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year (other than cash).

Derivative financial instruments

The derivative financial instruments used by the group to manage its interest rate and currency risks are interest rate swaps and forward rate contracts. Interest receipts and payments arising on interest rate swaps are recognised within net interest payable over the period of the contract. Termination payments made or received are amortised over the life of the underlying exposure in cases where the exposure continues to exist, and taken to the profit and loss account immediately where the underlying exposure ceases to exist. Gains and losses arising on forward currency contracts entered into to hedge trading transactions are recognised in the profit and loss account in the same period as the underlying exposure. Forward contracts hedging cash and borrowings are valued at closing rates of exchange at each period end, with gains and losses offset against the related cash and borrowings. The interest differential on these instruments is recognised against net interest payable.

Turnover

Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income. Consideration received from customers is only recorded as turnover when the group has completed full performance in respect of that consideration.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development

Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pensions

The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases
The rental costs of properties and other assets held under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases (being leases which give rights to the group approximating to ownership) is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation
Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date except as required by FRS19 'Deferred Tax' as detailed below. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and joint ventures as there is no commitment to remit these profits. It is not anticipated that any significant taxation will become payable on the revaluation surplus or sale of properties, as taxation on gains on properties used for the purpose of the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

Notes relating to the financial statements

1. Segmental information

(i) Turnover by business segment

	Notes	2004 £m	Restated[1] 2003 £m
Health		**1,806.7**	1,704.5
Beauty and Toiletries		**1,992.5**	1,902.4
Lifestyle		**676.5**	676.5
Boots The Chemists		**4,475.7**	4,283.4
Boots Opticians and Dentalcare		**241.6**	258.6
		4,717.3	4,542.0
Boots Healthcare International	a	**476.0**	430.1
Boots Retail International	b	**41.6**	35.6
Group and other	c	**91.5**	79.8
Continuing operations		**5,326.4**	5,087.5
Discontinued operation – Halfords		**–**	234.9
Turnover: group and share of joint ventures		**5,326.4**	5,322.4

a Boots Healthcare International also made inter-segmental sales of £28.6m (2003 £30.3m).
b Boots Retail International also made inter-segmental sales of £1.4m (2003 £1.4m).
c Group and other includes Boots Manufacturing third party sales of £68.4m (2003 £68.1m).

(ii) Turnover by geographical segment

	Origin 2004 £m	Restated[1] Origin 2003 £m	Destination 2004 £m	Restated[1] Destination 2003 £m
UK	**4,813.3**	4,864.0	**4,761.7**	4,818.6
Rest of Europe	**336.5**	300.8	**370.5**	329.0
Rest of World	**176.6**	157.6	**194.2**	174.8
	5,326.4	5,322.4	**5,326.4**	5,322.4

Included in the UK is turnover of £nil (2003 £234.9m) from discontinued operation – Halfords. In addition, inter-segmental sales were made of £117.6m (2003 £88.0m).

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

(iii) Profit before interest and taxation by business segment

	Notes	Before exceptional items 2004 £m	Total 2004 £m	Restated[1] Before exceptional items 2003 £m	Restated[1] Total 2003 £m
Boots The Chemists	a	**531.1**	**523.8**	568.4	566.4
Boots Opticians and Dentalcare		**(5.1)**	**(1.1)**	(30.9)	(66.3)
		526.0	**522.7**	537.5	500.1
Boots Healthcare International		**80.6**	**80.6**	70.1	70.1
Boots Retail International		**(10.4)**	**(10.4)**	(22.3)	(22.3)
Group and other		**(46.1)**	**(6.4)**	(66.2)	(58.2)
Continuing operations		**550.1**	**586.5**	519.1	489.7
Discontinued operation – Halfords		**–**	**–**	22.5	(100.7)
Profit before interest and taxation		**550.1**	**586.5**	541.6	389.0

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

a Boots The Chemists includes Digital Wellbeing Limited (DWL) operating loss of £3.2m (2003 £14.7m). DWL has been a subsidiary of Boots The Chemists for all of the financial year. 2003 included a share of the joint venture loss of £11.8m.

For an analysis of exceptional items see note 3.

(iv) Impact of FRS5 Changes – Revenue Recognition

During the year, the Accounting Standards Board issued additional guidance to FRS5 in the form of Application Note G: Revenue Recognition.

The overall impact on the group profit and loss account is to reduce turnover by £5.0m (2003 £4.9m) and operating profit by £1.4m (2003 £2.5m). There is a prior year adjustment of £30.0m to reserves at 31st March 2003 as a result of these changes, an increase of £42.9m to creditors partly offset by the related deferred tax assets of £12.9m shown within provisions for liabilities and charges (see notes 16 and 20). Net assets at 31st March 2004 have been reduced by £31.0m as a result of these changes. Comparatives have been restated. There is no impact on the parent company.

Elements Leading to Restatement

1. Advantage Card

In the past when points were issued the group has provided for the cost of goods which are expected to be purchased by customers using those points. This has previously been charged to cost of sales. Application Note G requires the provision to be for the full retail value of the points and for this to be charged to turnover. The impact of this change on sales is a reduction of £2.7m (2003 £4.5m) and an operating profit reduction of £1.4m (2003 £2.5m).

A prior year adjustment of £26.7m has been made to reserves.

1. Segmental information continued

2. Other adjustments
Other adjustments relate to monies received from customers on certain direct debit schemes, certain commissions and changes to gift voucher redemption provisions now brought into line with FRS5. The impact of these changes on sales is a reduction of £2.3m (2003 £0.4m) and there is no impact on operating profit (2003 £nil).

A prior year adjustment of £3.3m has been made to reserves.

Summary of Impact on Sales

	Post FRS5 2004 £m	Pre FRS5 2004 £m	Change 2004 £m	Post FRS5 2003 £m	Pre FRS5 2003 £m	Change 2003 £m
Boots The Chemists	**4,475.7**	**4,478.3**	**(2.6)**	4,283.4	4,284.4	(1.0)
Boots Opticians and Dentalcare	**241.6**	**244.0**	**(2.4)**	258.6	262.5	(3.9)
Boots Group	**5,326.4**	**5,331.4**	**(5.0)**	5,322.4	5,327.3	(4.9)

Summary of Impact on Operating Profit

	Post FRS5 2004 £m	Pre FRS5 2004 £m	Change 2004 £m	Post FRS5 2003 £m	Pre FRS5 2003 £m	Change 2003 £m
Boots The Chemists	**531.1**	**531.2**	**(0.1)**	568.4	568.6	(0.2)
Boots Opticians and Dentalcare	**(5.1)**	**(3.8)**	**(1.3)**	(30.9)	(28.6)	(2.3)
Boots Group	**550.1**	**551.5**	**(1.4)**	541.6	544.1	(2.5)

(v) Profit before interest and taxation by geographical origin

	Before exceptional items 2004 £m	Total 2004 £m	Restated[1] Before exceptional items 2003 £m	Restated[1] Total 2003 £m
UK	**469.6**	**506.0**	459.9	307.3
Rest of Europe	**68.0**	**68.0**	65.5	65.5
Rest of World	**12.5**	**12.5**	16.2	16.2
Profit before interest and taxation	**550.1**	**586.5**	541.6	389.0

Included in the UK is operating profit of £nil (2003 £22.5m) from discontinued operation – Halfords.

(vi) Net assets by business segment

	2004 £m	Restated[1] 2003 £m
Boots The Chemists	**1,801.4**	1,790.2
Boots Opticians and Dentalcare	**62.6**	95.4
	1,864.0	1,885.6
Boots Healthcare International	**426.7**	418.3
Boots Retail International	**17.5**	17.6
Other	**61.2**	85.7
Net operating assets (all continuing operations)	**2,369.4**	2,407.2
Unallocated net liabilities	**(486.9)**	(437.3)
	1,882.5	1,969.9

Net operating assets include intangible and tangible fixed assets, investment in joint ventures, stocks, third party debtors and creditors. Unallocated net liabilities includes own shares, all taxation balances, dividend creditors and net debt.

(vii) Net operating assets by geographical segment

	2004 £m	Restated[1] 2003 £m
UK	**1,811.1**	2,031.0
Rest of Europe	**464.5**	219.6
Rest of World	**93.8**	156.6
	2,369.4	2,407.2

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

2. Total operating profit

	Notes	Total[2] 2004 £m	Restated[1] Continuing operations 2003 £m	Discontinued operation 2003 £m	Restated[1] Total 2003 £m
Group turnover		**5,325.0**	5,085.4	234.9	5,320.3
Cost of sales		**(2,892.9)**	(2,723.3)	(121.7)	(2,845.0)
Gross profit		**2,432.1**	2,362.1	113.2	2,475.3
Selling, distribution and store costs		**(1,538.0)**	(1,473.8)	(77.1)	(1,550.9)
Research and development costs		**(21.3)**	(25.7)	–	(25.7)
Administrative expenses		**(321.6)**	(330.3)	(13.6)	(343.9)
Group operating profit	a,b	**551.2**	532.3	22.5	554.8
Share of operating loss of joint ventures		**(1.1)**	(13.2)	–	(13.2)
Total operating profit including share of joint ventures		**550.1**	519.1	22.5	541.6

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).
[2]All relating to continuing operations.

There have been no significant acquisitions during 2004.

a Group operating profit includes £12.0m in the comparative year for costs of rationalising the group's manufacturing facilities.

b Costs of £45.5m have been included in the current year for rationalising head office as part of the Getting in Shape programme.

Total operating profit is after charging:	2004 £m	2003 £m
Operating lease rentals		
– Property rents	**182.2**	190.1
– Computer and plant hire	**22.7**	9.4
Depreciation, amortisation and impairments of fixed assets	**136.7**	162.8
Auditors' remuneration, including £0.2m (2003 £0.2m) for the company	**0.9**	1.0

The group auditors and their associates also received £1.9m (2003 £1.3m) in respect of non-audit services in the UK. This represents less than 9% of consultancy and professional services costs of the group for 2004. This included:

– further assurance services of £1.2m (2003 £0.7m) that included advice on accounting matters and an ongoing audit review of a major new systems development;
– tax services of £0.5m (2003 £0.3m) with £0.2m (2003 £0.1m) relating to compliance work, the balance being advisory;
– other services of £0.2m (2003 £0.3m) that included £0.1m (2003 £0.2m) for the secondment of auditors' staff in the year.

These latter arrangements are covered by written agreements to ensure the objectivity and independence of the auditor is not compromised.

3. Exceptional items

	Total[1] 2004 £m	Continuing operations 2003 £m	Discontinued operation 2003 £m	Total 2003 £m
Profit on disposal of fixed assets	**32.5**	5.1	–	5.1
Provision for loss on closure of operations	**3.9**	(34.5)	–	(34.5)
Loss on disposal of business (see note 4)	**–**	–	(123.2)	(123.2)
Total exceptional items before taxation	**36.4**	(29.4)	(123.2)	(152.6)
Attributable tax credit (see note 6)	**0.6**	9.4	1.7	11.1
	37.0	(20.0)	(121.5)	(141.5)

[1]All relating to continuing operations.

Provision for loss on closure of operations relates to the withdrawal from certain wellbeing services.

As detailed in note 5 an exceptional interest credit of £92.1m arose in the year to 31st March 2003, the tax on which was £27.6m.

4. Acquisition and disposal of businesses

(i) Acquisitions

All businesses acquired have been accounted for using the acquisition method of accounting. None of these was individually significant and they are therefore not shown separately.

During the year, Boots The Chemists acquired a number of pharmacy businesses for £0.9m. There were no significant fair value adjustments in respect of these acquisitions.

4. Acquisition and disposal of businesses continued

(ii) Disposals	2004 £m	2003 £m
Tangible fixed assets	–	(109.9)
Stocks	–	(91.4)
Debtors	–	(6.4)
Cash	–	(21.5)
Other creditors and provisions	–	80.9
Net assets disposed of	–	(148.3)
Related goodwill	–	(349.3)
Disposal and other termination costs	–	(21.6)
Consideration	–	396.0
Loss on disposal of business	–	(123.2)

There were no business disposals in the year to 31st March 2004. The principal disposal in the year to 31st March 2003, was the sale of Halfords Limited (completed on 30th August 2002) to CVC Capital Partners. Halfords has been treated as a discontinued operation. The consideration of £396.0m reflects the final settlement on completion of the net asset value statement in December 2002.

(iii) Net cash (outflow)/inflow for acquisitions and disposals	2004 £m	2003 £m
Acquisition of businesses	**(1.1)**	(1.2)
Disposal of business	–	396.0
Cash balance sold with business	–	(21.5)
Cash balances acquired with businesses	–	1.0
Deferred consideration in respect of prior year acquisitions and disposal	–	0.6
Costs of disposal paid	–	(8.6)
Investment in joint ventures	**(1.1)**	(9.3)
Repayment of loan by joint venture	–	1.1
	(2.2)	358.1

5. Net interest (payable)/receivable and similar items

	Notes	2004 £m	2003 £m
Interest payable and similar charges:			
Bank loans and overdrafts		**(6.2)**	(7.9)
Other loans	a	**(18.1)**	(23.9)
Finance lease charges		**(0.7)**	(0.9)
Income from interest rate swaps		**6.8**	22.0
		(18.2)	(10.7)
Interest receivable and similar income		**13.2**	16.6
Increase in value of investment in 10.125% bond 2017	a	–	5.8
Share of interest of joint ventures		**(0.5)**	(0.4)
Net interest (payable)/receivable and similar items before closure of interest rate swaps		**(5.5)**	11.3
Exceptional interest on closure of interest rate swaps	b	–	92.1
Net interest (payable)/receivable and similar items		**(5.5)**	103.4

a Included in other loans is interest payable on the 10.125% bond 2017 of £nil (2003 £5.8m) and eurobond of £16.5m (2003 £16.5m). The 10.125% bond 2017 was redeemed on 25th June 2002.

b Interest rate swaps – During the year to 31st March 2003, the group reviewed its interest rate management policy and concluded that certain interest rate swaps were no longer an effective hedge to liabilities. As a result the group closed out £1,315m of interest rate swaps. £1,100m of these were lease related, and their closure resulted in the receipt of a net cash premium of £53.8m.

The exceptional interest credit in the year to 31st March 2003, totalled £92.1m and comprised:
- the £53.8m premium referred to above,
- the unamortised surplus of £46.8m brought forward as a result of closure of swaps in the year to 31st March 2002,
- the cost of £13.0m recognised for the closure of a further £200m of interest rate swaps closed early in the year to 31st March 2004, and
- the residual balances of £4.5m arising from the cessation of the policy to hedge the capitalised value of the property lease portfolio.

6. Tax on profit on ordinary activities

	2004 £m	Restated[1] 2003 £m
Current tax:		
UK corporation tax at 30.0% (2003 30.0%)	**121.8**	210.4
Share of tax credit of joint ventures	**–**	(1.5)
Adjustments in respect of prior periods	**(5.5)**	(1.6)
	116.3	207.3
Relief for overseas taxation	**(4.1)**	(6.6)
	112.2	200.7
Overseas taxation	**16.7**	15.6
Total current tax charge for the year	**128.9**	216.3
Deferred taxation (see note 20):		
Share of deferred tax of joint ventures	**–**	(0.1)
Origination and reversal of timing differences	**38.8**	(24.3)
Tax on profit on ordinary activities	**167.7**	191.9
Tax credit included above attributable to exceptional non-operating items	**(0.6)**	(11.1)
Tax charge included above attributable to exceptional interest	**–**	27.6

Reconciliation of current tax charge

The UK standard rate of corporation tax for the year is 30.0% (2003 30.0%). The actual tax charge for the current year is below (previous year exceeds) the standard rate for the reasons set out in the following reconciliation:

	2004 £m	Restated[1] 2003 £m
Profit on ordinary activities before taxation	**581.0**	492.4
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30.0% (2003 30.0%)	**174.3**	147.7
Factors affecting charge for the year:		
Changes in accelerated capital allowances	**(4.8)**	7.0
Changes in pension fund prepayment	**(6.6)**	6.3
Other timing differences	**(15.6)**	4.7
Intangibles amortisation	**(6.5)**	(4.5)
Disallowable expenses	**3.8**	19.4
Exceptional items	**(11.9)**	34.8
Foreign tax charged at higher rates than UK standard rate	**1.7**	2.5
Prior year adjustments	**(5.5)**	(1.6)
Total current tax charge for the year	**128.9**	216.3

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

6. Tax on profit on ordinary activities continued

Taxation on gains on properties used for the group's trade is expected to be deferred indefinitely or eliminated by capital losses.

The group has only recognised as a deferred tax asset overseas losses which are likely to be utilised in the next five years. Where there is no certainty of recovery no asset has been recognised. Unprovided deferred tax on losses net of amortisation is £20.2m (2003 £20.8m).

7. Profit for the financial year attributable to shareholders

The company has not presented its own profit and loss account as permitted by section 230 (4) of the Companies Act 1985.

Of the profit attributable to shareholders, £997.3m (2003 £1,274.3m) is dealt with in the financial statements of the company.

8. Dividends paid and proposed

	2004 p per share	2003 p per share	2004 £m	2003 £m
Interim	**8.8**	8.4	**67.7**	69.3
Final proposed	**21.0**	20.2	**158.6**	161.4
	29.8	28.6	**226.3**	230.7

9. Earnings per share

	2004	Restated[1] 2003
Basic earnings per share before exceptional items	**48.2p**	45.0p
Effect of exceptional items	**4.7p**	(9.2)p
Basic earnings per share	**52.9p**	35.8p
Diluted earnings per share before exceptional items	**48.0p**	44.9p
Effect of exceptional items	**4.8p**	(9.2)p
Diluted earnings per share	**52.8p**	35.7p

The calculation of basic and diluted earnings per share is based on:

Earnings	2004 £m	Restated[1] 2003 £m
Earnings for basic and diluted earnings per share calculation before exceptional items	**375.6**	377.0
Exceptional items (see note 3)	**37.0**	(77.0)
Earnings for basic and diluted earnings per share calculation	**412.6**	300.0

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

9. Earnings per share continued

Number of shares	2004 million	2003 million
Weighted average number of shares used in basic earnings per share calculation	**780.0**	838.1
Dilutive effect of options	**1.7**	1.6
Weighted average number of shares used in diluted earnings per share calculation	**781.7**	839.7

The weighted average number of shares used in basic earnings per share calculation excludes 12.6m (2003 14.6m) shares held by The Boots ESOP Trust, the QUEST and unappropriated shares held by Boots Share Plan Trustees.

The dilutive effect relates to options under an employee savings related scheme and executive option schemes.

Basic and diluted earnings per share before exceptional items are disclosed to reflect the underlying performance of the group.

10. Intangible fixed assets

Group	Purchased goodwill £m	Product rights acquired £m	Total £m
Cost			
At 1st April 2003	31.0	304.4	335.4
Currency adjustments	–	(16.8)	(16.8)
Additions	0.9	0.2	1.1
At 31st March 2004	**31.9**	**287.8**	**319.7**
Amortisation			
At 1st April 2003	6.3	27.8	34.1
Currency adjustments	–	0.2	0.2
Charge for year	1.6	2.3	3.9
At 31st March 2004	**7.9**	**30.3**	**38.2**
Net book value at 31st March 2003	24.7	276.6	301.3
Net book value at 31st March 2004	**24.0**	**257.5**	**281.5**

Brands acquired by the company or by its subsidiaries, namely Clearasil and Dobendan and its derivatives are well known and well positioned in their markets and Boots Healthcare International (BHI) plans to improve this position from a programme of continued investment. BHI have therefore concluded that these brands have an indefinite useful economic life and they are not being amortised. As a consequence an annual impairment review is undertaken. The valuation of these brands is significantly in excess of latest carrying value of £246.8m. The majority of the other product rights are where the group has a licence to market other peoples' brands in specific countries.

11. Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1st April 2003	788.0	373.2	1,214.5	2,375.7
Currency adjustments	(0.9)	(0.5)	(0.9)	(2.3)
Additions	5.6	29.2	180.1	214.9
Disposals	(85.5)	(16.6)	(52.9)	(155.0)
Reclassifications and transfers	(7.0)	3.7	3.3	–
At 31st March 2004	**700.2**	**389.0**	**1,344.1**	**2,433.3**
Depreciation				
At 1st April 2003	61.0	218.6	579.6	859.2
Currency adjustments	(0.4)	(0.3)	(0.7)	(1.4)
Depreciation for year	8.4	28.4	88.1	124.9
Disposals	(1.6)	(11.1)	(36.1)	(48.8)
Reclassifications and transfers	(4.3)	2.9	1.4	–
At 31st March 2004	**63.1**	**238.5**	**632.3**	**933.9**
Net book value at 31st March 2003	727.0	154.6	634.9	1,516.5
Net book value at 31st March 2004	**637.1**	**150.5**	**711.8**	**1,499.4**

The cost of plant and machinery includes £21.4m (2003 £22.2m) in respect of assets held under finance leases on which the accumulated depreciation at the end of the year was £11.1m (2003 £10.1m) and for which the depreciation charge for the year was £3.6m (2003 £3.7m).

Land and buildings includes capitalised interest of £nil (2003 £4.6m).

Tangible fixed assets include payments on account and assets in course of construction of £121.4m (2003 £26.8m).

Land and buildings include investment properties as follows:

Valuation	£m
At 1st April 2003	68.7
Additions	0.6
Disposals	(69.3)
At 31st March 2004	**–**

11. Tangible fixed assets continued

Investment properties were valued on the basis of open market value (adjusted to exclude the benefit of formal lease arrangements with group companies, as determined in accordance with the Guidance Notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors) by the group's own professionally qualified staff.

Surpluses and deficits arising and the aggregate surplus or deficit is transferred to the revaluation reserve except that any permanent diminution in value of an investment property is taken to the profit and loss account for the year.

In accordance with SSAP19, no depreciation is provided in respect of investment properties. This treatment represents a departure from the Companies Act 1985 requirements concerning depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

	Group 2004 £m	Group 2003 £m
Net book value of land and buildings comprises:		
Freehold	**527.5**	563.8
Long leasehold (more than 50 years unexpired)	**78.5**	144.0
Short leasehold	**31.1**	19.2
	637.1	727.0
Analysis of cost or valuation:		
Cost	**1,913.7**	1,773.9
Valuation of properties – Directors 1993	**511.1**	524.5
– Independent 1989 and prior	**8.5**	8.6
Investment properties – Directors 2003	**–**	68.7
	2,433.3	2,375.7
Value of tangible fixed assets under the historical cost convention:		
Cost	**2,179.4**	2,106.4
Depreciation	**926.2**	852.2
Net book value	**1,253.2**	1,254.2

The valuations of properties (other than investment properties) were based upon existing use.

12. Fixed asset investments

Group	Joint venture equity £m	Loans to joint venture £m	Own shares £m	Total £m
Cost				
At 1st April 2003	(8.8)	10.0	144.4	145.6
Additions	–	1.6	7.8	9.4
Disposals	–	–	(23.1)	(23.1)
Share of retained losses for the financial year	(1.4)	–	–	(1.4)
At 31st March 2004	**(10.2)**	**11.6**	**129.1**	**130.5**
Provision/amortisation				
At 1st April 2003	–	1.2	59.7	60.9
Disposals	–	–	(13.0)	(13.0)
Impairments	–	0.2	–	0.2
Amortisation of own shares – ESOP	–	–	1.9	1.9
– AESOP	–	–	5.8	5.8
At 31st March 2004	**–**	**1.4**	**54.4**	**55.8**
Net book value at 31st March 2003	(8.8)	8.8	84.7	84.7
Net book value at 31st March 2004	**(10.2)**	**10.2**	**74.7**	**74.7**

Company	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost and net book value			
At 1st April 2003	209.0	1,178.4	1,387.4
Currency adjustments	–	(3.3)	(3.3)
Additions	–	18.4	18.4
Disposals	–	(295.8)	(295.8)
At 31st March 2004	**209.0**	**897.7**	**1,106.7**

The principal subsidiary undertakings are listed on page 68. The group also has a 50% investment in handbag.com Ltd., a joint venture. Minority shareholders have equity holdings in Boots Piramal Healthcare Ltd., incorporated in India.

12. Fixed asset investments continued

Own shares

At 31st March 2004 the number of own shares held by the group was 16.2m (2003 17.1m). These were held in various employee share ownership trusts. The maximum number of shares held was at the beginning of the year and represented 2.1% of the total issued share capital at that time. The market value of these shares at 31st March 2004 is £100.4m (2003 £90.9m) with a nominal value of £4.1m (2003 £4.3m). The number of shares under option to employees is 2.9m (2003 4.3m). Dividends have been waived by the trusts with exception of 3.6m appropriated shares. In total 2.1m (2003 2.3m) of the shares have been conditionally gifted to employees.

The employee share ownership trusts are considered for accounting purposes to be under the control of the company. Accordingly their results, assets and liabilities are included in the group financial statements of Boots Group PLC.

The group has taken advantage of exemptions under UITF17 'Employee Share Schemes' relating to the Inland Revenue approved SAYE schemes.

13. Stocks

	Group 2004 £m	Group 2003 £m
Manufacturing:		
Raw materials	**28.4**	27.5
Work in progress	**10.3**	10.0
Finished goods	**89.1**	81.4
	127.8	118.9
Retailing	**563.0**	508.5
Property development	**–**	11.2
	690.8	638.6

14. Debtors

	Group 2004 £m	Group 2003 £m	**Company 2004 £m**	Company 2003 £m
Falling due within one year:				
Trade debtors	**360.7**	346.1	**–**	–
Owed by subsidiary undertakings	**–**	–	**1,192.9**	3.8
Owed by joint venture	**0.1**	0.1	**–**	–
Other debtors	**52.8**	90.6	**–**	–
Deferred tax asset (see note 20)	**1.0**	1.7	**–**	–
Prepayments and accrued income	**87.9**	97.6	**3.3**	0.8
Corporation tax	**13.5**	0.5	**9.1**	–
	516.0	536.6	**1,205.3**	4.6
Falling due after more than one year:				
Other debtors	**163.9**	110.8	**502.6**	–
Deferred tax asset (see note 20)	**2.0**	3.2	**–**	–
	165.9	114.0	**502.6**	–
	681.9	650.6	**1,707.9**	4.6

Other debtors include pension prepayments (see note 26).

15. Current asset investments and deposits

	Group 2004 £m	Group 2003 £m	**Company 2004 £m**	Company 2003 £m
Listed investments	**0.1**	0.1	**–**	–
Short term deposits	**239.0**	293.0	**223.0**	275.0
	239.1	293.1	**223.0**	275.0
Market value of investments listed on the London Stock Exchange	**0.2**	0.2	**–**	–

16. Creditors: Amounts falling due within one year

	Group 2004 £m	Restated[1] Group 2003 £m	Company 2004 £m	Company 2003 £m
Borrowings (see note 18)	**156.5**	186.9	**141.9**	1.3
Trade creditors	**402.8**	367.9	**–**	–
Due to subsidiary undertakings	–	–	**137.9**	–
Due to joint venture	**3.2**	–	**–**	–
Bills of exchange	**1.5**	1.0	**–**	–
Corporation tax	**103.2**	126.1	**–**	1.8
Taxation and social security (including VAT and other sales taxes)	**29.1**	33.0	**0.1**	–
Other creditors	**135.5**	97.7	**2.6**	7.3
Accruals and deferred income	**144.9**	181.6	**14.1**	3.3
Dividends (see note 8)	**158.6**	161.4	**158.6**	161.4
	1,135.3	1,155.6	**455.2**	175.1

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).
The prior year for the group has been increased by £42.9m.

17. Creditors: Amounts falling due after more than one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Borrowings (see note 18)	**341.6**	361.1	**308.8**	308.8
Due to subsidiary undertakings	**–**	–	**560.8**	6.2
Due to joint venture	**–**	2.7	**–**	–
Other creditors	**8.8**	6.0	**–**	–
Accruals and deferred income	**32.5**	32.0	**–**	–
	382.9	401.8	**869.6**	315.0

The only creditors falling due after more than five years are included in borrowings, details of which are shown in note 18.

18. Borrowings

	Notes	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank loans and overdrafts repayable on demand		**112.9**	149.7	**141.9**	1.3
Other bank loans and overdrafts	a	**74.6**	86.0	**–**	–
Variable rate notes – Sterling	b	**0.5**	0.5	**–**	–
5.5% eurobond 2009	c	**300.0**	300.0	**308.8**	308.8
Obligations under finance leases		**10.1**	11.8	**–**	–
		498.1	548.0	**450.7**	310.1
Amounts included above repayable by instalments		**63.0**	81.1	**–**	–
Repayments fall due as follows:					
Within one year:					
– Bank loans and overdrafts		**134.5**	166.2	**141.9**	1.3
– Obligations under finance leases		**4.1**	4.2	**–**	–
– Other borrowings		**17.9**	16.5	**–**	–
		156.5	186.9	**141.9**	1.3
After more than one year:					
– Within one to two years		**23.1**	21.9	**–**	–
– Within two to five years		**18.5**	39.2	**–**	–
– After five years		**300.0**	300.0	**308.8**	308.8
		341.6	361.1	**308.8**	308.8
		498.1	548.0	**450.7**	310.1

a Other bank loans and overdrafts include £52.8m (2003 £69.3m) that relate to the factoring of certain rental commitments over a ten-year period up to March 2007.

b Variable rate notes are repayable, subject to certain restrictions, at the option of the holders.

c The 5.5% eurobond 2009 was transferred from The Boots Company PLC to the new holding company, Boots Group PLC, on 20th January 2003 at its market value on that date of £308.8m.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted at 31st March 2004 are; £150m (2003 £150m) of the 5.5% eurobond 2009 and £30m (2003 £30m) of factored rental commitments. Further details are provided in the financial review.

All borrowings are unsecured.

19. Financial instruments and derivatives

An explanation of treasury policy and controls can be found in the financial review.

The disclosures for short term debtors and creditors have been excluded from the numerical disclosures in sections (i) and (ii) below as permitted by FRS13 'Derivatives and Other Financial Instruments: Disclosures'.

(i) Fair values of financial assets and liabilities

The fair values of currency and interest rate swaps and fixed rate borrowings have been determined with reference to market prices. All other material financial assets and liabilities are at floating rates of interest and therefore their fair value and book value are equal.

	Note	**Book value 2004 £m**	**Fair value 2004 £m**	Book value 2003 £m	Fair value 2003 £m
Primary financial instruments held or issued to finance the group's operations:					
Cash in hand and bank		**110.5**	**110.5**	203.4	203.4
Current asset investments and deposits		**239.1**	**239.2**	293.1	293.2
Bank loans and overdrafts repayable on demand		**(112.9)**	**(112.9)**	(149.7)	(149.7)
Eurobond		**(300.0)**	**(305.6)**	(300.0)	(310.8)
Obligations under finance leases		**(10.1)**	**(10.1)**	(11.8)	(11.8)
Other borrowings (excluding currency swaps)		**(75.1)**	**(77.6)**	(86.5)	(92.6)
Other financial liabilities	a	**(0.6)**	**(0.6)**	(0.5)	(0.5)
Derivative financial instruments held to manage interest rate and currency profile:					
Interest rate swaps		**4.8**	**8.2**	(10.1)	1.0
Forward Foreign Exchange Contracts		**–**	**(0.3)**	–	–

a Other financial liabilities are not included in net debt (see note 24).

19. Financial instruments and derivatives continued

(ii) Interest rate risk profile

The tables below reflect the interest rate and currency risk profile after taking into account the effect of interest rate swaps and forward foreign exchange contracts.

(a) Financial liabilities

Currency	Floating rate £m	Fixed rate £m	Financial liabilities on which no interest is payable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	(147.3)	(182.9)	(0.5)	(330.7)	5.9	4.6
Euro	(93.6)	–	(0.8)	(94.4)	–	–
Other	(73.6)	–	–	(73.6)	–	–
At 31st March 2004	**(314.5)**	**(182.9)**	**(1.3)**	**(498.7)**	**5.9**	**4.6**
Sterling	(385.0)	(1.1)	(0.5)	(386.6)	6.0	5.3
Euro	(92.7)	–	(0.8)	(93.5)	–	–
Other	(78.5)	–	–	(78.5)	–	–
At 31st March 2003	(556.2)	(1.1)	(1.3)	(558.6)	6.0	5.3

The sterling and euro financial liabilities on which no interest is paid have weighted average periods to maturity of 2.0 and 1.2 years respectively (2003 3.0 and 1.8 years).

(b) Financial assets

Currency	Floating rate £m	Fixed rate £m	Financial assets on which no interest is receivable £m	Total £m	Fixed rate weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	289.2	–	–	289.2	–	–
Euro	25.8	–	–	25.8	–	–
Other	39.4	–	–	39.4	–	–
At 31st March 2004	**354.4**	**–**	**–**	**354.4**	**–**	**–**
Sterling	391.5	0.3	0.2	392.0	2.0	–
Euro	63.2	3.5	0.4	67.1	2.0	–
Other	28.0	6.8	2.6	37.4	3.7	0.9
At 31st March 2003	482.7	10.6	3.2	496.5	3.1	0.6

Other financial assets on which no interest is received are repayable on demand.
The other currency financial assets relate mainly to bank deposits held by foreign subsidiary companies.
The majority of the floating rate assets and liabilities receive or pay interest based on rates ruling in the London inter-bank market.

19. Financial instruments and derivatives continued

(iii) Foreign currency exposure profile

Operations with a sterling functional currency have Euro and US dollar monetary (liabilities)/assets amounting to £(10.5)m (2003 £11.1m) and £0.8m (2003 £4.3m) respectively. Operations with non-sterling functional currencies have no monetary assets outside their local currencies (2003 US dollars £2.3m).

There were no other material foreign currency monetary assets and liabilities that may give rise to an exchange gain or loss in the profit and loss account.

(iv) Maturity of financial facilities

The group's undrawn committed facilities at 31st March 2004 of £462m (2003 £462m) expire in March 2005.

(v) The maturity of borrowings

Details are shown in note 18.

(vi) Hedging

Deferred gains of £8.6m resulting from the closure of interest rate swaps in respect of fixed rate borrowings are held in the balance sheet. It is expected that £2.4m will be recognised in the profit and loss account next year.

There were £23.6m (2003 £nil) nominal value forward foreign exchange contracts outstanding at 31st March 2004. These hedge the cost of foreign currency denominated purchases. All contracts expire within one year. On a mark to market basis, the contracts show a loss of £(0.3)m.

20. Provisions for liabilities and charges

Group	Deferred taxation £m	Vacant property provisions £m	Closure or termination of operations £m	Total £m
At 1st April 2003 as originally reported	127.5	9.6	36.7	173.8
Prior year adjustment (see note 1(iv))	(12.9)	–	–	(12.9)
At 1st April 2003 as restated	114.6	9.6	36.7	160.9
Transfer from debtors (see note 14)	(4.9)	–	–	(4.9)
	109.7	9.6	36.7	156.0
Currency adjustment	(0.6)	–	–	(0.6)
Profit and loss account	38.8	3.9	(6.6)	36.1
Utilised	–	(1.2)	(16.1)	(17.3)
Transfer to debtors (see note 14)	3.0	–	–	3.0
At 31st March 2004	**150.9**	**12.3**	**14.0**	**177.2**

20. Provisions for liabilities and charges continued

The vacant property provisions represent recognition of the net costs arising from vacant properties and sub-let properties, the exact timing of utilisation of these provisions will vary according to the individual properties concerned.

The provision for closure or termination of operations relates to recognition of costs arising as a result of the Halfords disposal, the withdrawal from certain wellbeing services and the rationalising of the group's manufacturing facilities. The majority of the costs are expected to be incurred in the next two years.

	Group 2004 £m	Restated[1] Group 2003 £m
Analysis of deferred taxation provision:		
Accelerated capital allowances	**78.5**	74.2
Intangibles amortisation	**38.5**	33.1
Pension prepayments	**51.6**	44.8
Other items	**(17.7)**	(37.4)
	150.9	114.7
Deferred tax asset:		
Overseas losses (included in debtors – see note 14)	**3.0**	4.9

[1] Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

Unprovided deferred tax relating to property revaluations and rolled-over gains is not readily quantifiable but it is expected to be fully offset by available capital losses.

21. Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1st April 2003 as originally reported	203.5	–	260.3	5.6	310.8	1,219.2	1,999.4
Prior year adjustment (see note 1(iv))	–	–	–	–	–	(30.0)	(30.0)
At 1st April 2003 as restated	203.5	–	260.3	5.6	310.8	1,189.2	1,969.4
Retained profit for the financial year	–	–	–	–	–	186.3	186.3
New share capital of Boots Group PLC issued	–	0.3	–	–	–	–	0.3
Revaluation surplus realised on disposals	–	–	(15.0)	–	–	15.0	–
Revaluation reserve element of depreciation charge	–	–	(1.1)	–	–	1.1	–
Repurchase of shares (see note 22)	(9.6)	–	–	9.6	–	(259.9)	(259.9)
Currency adjustments	–	–	–	–	–	(14.8)	(14.8)
At 31st March 2004	**193.9**	**0.3**	**244.2**	**15.2**	**310.8**	**1,116.9**	**1,881.3**

The revaluation reserve includes £nil (2003 £4.6m) relating to investment properties.

The balance on the merger reserve at 31st March 2004 represents the difference between called up share capital of the Company and the called up share capital, share premium account and capital redemption reserve of the former holding company (The Boots Company PLC) at 20th January 2003, the date of the capital reorganisation.

Goodwill set off against reserves is £394.3 (2003 £394.3m)

Company	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 2003	203.5	–	5.6	992.3	1,201.4
Issue of shares in Boots Group PLC	–	0.3	–	–	0.3
Retained profit for the financial year	–	–	–	771.0	771.0
Repurchase of shares (see note 22)	(9.6)	–	9.6	(259.9)	(259.9)
At 31st March 2004	**193.9**	**0.3**	**15.2**	**1,503.4**	**1,712.8**

22. Share capital

	Number of shares 2004 million	Number of shares 2003 million	**2004 £m**	2003 £m
Ordinary shares of 25p each:				
Authorised	**1,200.0**	1,200.0	**300.0**	300.0
Allotted, called up and fully paid	**775.5**	813.8	**193.9**	203.5

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Option schemes	0.1	–	0.3

Share repurchase

During the year to 31st March 2004 38.3m ordinary shares were purchased and subsequently cancelled at prices ranging from 610p per share to 750p per share, with an average of 673p per share. The total cost of the purchases was £259.9m, which has been charged against distributable reserves. 0.4m of the repurchased shares were not cancelled until after the year end but the cancellation has been reflected in the allotted, called up and fully paid numbers above.

Share options

Under a savings-related scheme, options have been granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. In 1999 a QUEST was established to acquire shares in the company as a means by which shares would be delivered to employees exercising the options granted. At 31st March 2004, options exercisable from 2004 to 2007 at between 485p and 808p per share were outstanding in respect of 2.9m shares (2003 4.3m).

Under an executive share option scheme, certain senior executives have been granted options to subscribe for ordinary shares after a period of three years from date of grant as long as performance targets are met. At 31st March 2004, options exercisable from 2004 to 2013 at between 576p and 710p per share were outstanding in respect of 4.7m shares (2003 3.9m).

23. Reconciliation of operating profit to operating cash flows

	2004 £m	Restated[1] 2003 £m
Group operating profit before exceptional items	**551.2**	554.8
Depreciation, amortisation and impairments of fixed assets	**136.7**	162.8
Loss on disposal of fixed assets	**3.4**	5.5
Increase in stocks	**(53.7)**	(77.1)
Increase in debtors, including pension prepayments	**(43.5)**	(27.0)
Increase/(decrease) in creditors	**49.7**	(26.2)
Other non-cash movements	**11.3**	(2.4)
Net cash inflow before expenditure relating to exceptional items	**655.1**	590.4
Exceptional operating cash flows (see below)	**(17.3)**	(8.1)
Cash inflow from operating activities	**637.8**	582.3

	2004 £m	2003 £m
Exceptional operating cash flows:		
Restructuring and integration costs paid	**(17.3)**	(8.1)
	(17.3)	(8.1)

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

24. Analysis of net debt

	As at 1st April 2003 £m	Cash flow £m	Other non-cash changes £m	Currency £m	As at 31st March 2004 £m
Cash at bank and in hand	203.4	(89.0)	–	(3.9)	**110.5**
Bank loans and overdrafts repayable on demand	(149.7)	36.7	–	0.1	**(112.9)**
Net (overdraft)/cash	53.7	(52.3)	–	(3.8)	**(2.4)**
Liquid resources	293.1	(53.5)	–	(0.5)	**239.1**
Obligations under finance leases	(11.8)	5.9	(4.2)	–	**(10.1)**
Other borrowings	(386.5)	11.0	–	0.4	**(375.1)**
Total	(51.5)	(88.9)	(4.2)	(3.9)	**(148.5)**

Liquid resources comprise listed investments and short term deposits (see note 15).

25. Commitments and contingent liabilities

(i) Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:	Group 2004 £m	Group 2003 £m
Contracts placed	28.6	13.1

(ii) Annual commitments under operating leases are as follows:	Group Land and buildings £m	Group Other £m
Expiring:		
Within one year	7.3	0.8
Over one year and less than five years	21.0	12.4
Over five years	147.2	18.9
At 31st March 2004	**175.5**	**32.1**
Expiring:		
Within one year	13.8	0.8
Over one year and less than five years	18.5	2.6
Over five years	131.9	19.4
At 31st March 2003	164.2	22.8

25. Commitments and contingent liabilities

(iii) Other financial commitments

On 1st November 2002 Boots entered into a contractual arrangement with Xansa Plc to provide IT application support and development services over a seven-year period. This arrangement includes a guaranteed minimum payment from Boots to Xansa of £35m, a proportion of which relates to capital expenditure which is not included in (i) above.

(iv) Contingent liabilities

Knoll Pharmaceutical Co. ('Knoll') is a defendant in a number of consumer class actions in 30 states of the USA, Canada and Puerto Rico. Knoll is the successor to Boots Pharmaceuticals Inc., formerly an indirect subsidiary of the company, which was sold to the BASF group under agreements made by the company in March 1995. The company has been named as a defendant in some of these actions, which allege that the marketing of the product Synthroid did not comply with consumer protection and business practice laws. A settlement by Knoll of consumer actions and claims of insurers and state attorneys general in the United States has been approved, and a settlement of most of the actions in Canada has been approved. The company asserts that the relevant courts in North America have no jurisdiction over it in these cases and this has been approved by a state court in Illinois. In the light of current information, the directors believe that the company has good defences to claims concerning Synthroid including any that might be brought by BASF and, while the outcome of such claims remains uncertain, they believe that it should not have a material adverse impact on the group.

26. Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes.

Boots Pension Scheme

The principal UK pension scheme is Boots Pension Scheme.

The independent scheme actuary carried out the latest valuation of the scheme as at 1st April 2001. The next triennial actuarial valuation, as at April 2004, is in progress. The UK pension charge for the year has been determined under SSAP24 using the projected unit method and the results under SSAP24 were as follows:

Scheme assets and liabilities as at latest valuation date – 1st April 2001	UK
Market value of assets	£2,274m
Value of accrued liabilities	£1,960m
Funding level	116%

The key assumptions used in determining the accounting costs for the scheme are given below. The financial assumptions were derived from market yields on bonds at the valuation date.

%pa	UK 2001 Valuation
Pension increases	2.4%
General long-term pay increases	3.8%
Investment return	6.0%

The pension charge for the year for Boots Pension Scheme was £28m (2003 £31m). This comprises the regular cost of pensions, offset by amortisation of the surpluses and deficits disclosed by previous valuations over periods up to 13 years. The group contributed £58m (including £8m of pension augmentations) in the year to the Boots Pension Scheme. A pension prepayment of £172m (2003 £150m) is included within other debtors. These prepayments include £50m (2003 £50m) paid in advance.

Other pension arrangements

In common with other companies, additional defined benefit pension arrangements exist for certain senior executives in the UK. Since 1st October 2000, new UK employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme. The cost of these arrangements was £3m (2003 £2m).

26. Pensions continued

Total pension cost

The overall pension charge for the year (excluding pension augmentations) comprises:

	Percent of Pensionable Pay 2004 %	Costs 2004 £m	Percent of Pensionable Pay 2003 %	Costs 2003 £m
Regular cost	**15%**	**60**	15%	65
Variations from regular cost	**(6)%**	**(23)**	(6)%	(25)
Notional Interest on prepayment	**(2)%**	**(9)**	(2)%	(9)
Boots Pension Scheme	**7%**	**28**	7%	31
Other UK pension arrangements		**3**		2
Overseas arrangements		**3**		3

FRS17

Whilst the financial statements for the year ended 31st March 2004 continue to include a pension charge and pension prepayment calculated under the principles of SSAP24, this new standard requires certain additional disclosures. These are noted below. The actuarial valuations with respect to UK schemes have been based on the most recent formal valuations (on page 65) and updated by the Scheme Actuary to 31st March 2004. The figures for overseas schemes are not material and have not been included.

FRS17 'Retirement Benefits' will change fundamentally the calculation and reporting of the cost of retirement benefits. The disclosures below relate to UK schemes.

The principal assumptions used by the independent qualified actuaries in updating the latest valuations of each of the schemes for FRS17 purposes were:

% pa	31 March 2004	31 March 2003	31 March 2002
Inflation	2.9%	2.6%	2.8%
Rate of general long-term increase in salaries	4.4%	4.1%	4.3%
Rate of increase to pensions in payment	2.8%	2.5%	2.7%
Discount rate for scheme liabilities	5.5%	5.5%	6.1%

26. Pensions continued

The market value of the assets in the UK schemes, the present value of liabilities and the resulting surplus together with the expected rates of return on the assets were as follows:

	Long-term rate of return expected at 31 March 2004 % p.a.	Value at 31 March 2004 £m	Long-term rate of return expected at 31 March 2003 % p.a.	Value at 31 March 2003 £m	Long-term rate of return expected at 31 March 2002 % p.a.	Value at 31 March 2002 £m
Bonds	**5.0**	**2,831**	4.8	2,676	5.4	2,375
Other net assets	**4.0**	**5**	3.5	18	4.0	17
Total market value of assets		**2,836**		2,694		2,392
Present value of scheme liabilities		**(2,894)**		(2,540)		(2,226)
(Deficit)/surplus in scheme		**(58)**		154		166
Related deferred tax asset/(liability)		**17**		(46)		(50)
Net pension (liability)/asset		**(41)**		108		116

Had the group adopted FRS17 the financial statements would have reflected the following amounts during the year:

For year ending	2004 £m	2003 £m
Amounts charged to operating profit		
Current service cost	**76**	73
Past service costs	**12**	5
Total operating charge	**88**	78
Amounts included as other finance income		
Expected return on pension scheme assets	**128**	130
Interest on pension scheme liabilities	**(138)**	(135)
Net return	**(10)**	(5)
Amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return in excess of expected return on pension scheme assets	**33**	198
Experience (losses)/gains arising on the scheme liabilities	**(56)**	23
Changes in assumptions underlying the present value of the scheme liabilities	**(152)**	(208)
Actuarial (loss)/gain recognised in STRGL	**(175)**	13

26. Pensions continued

Analysis of movement in (deficit)/surplus during the year For year ended 31st March 2004	2004 £m	2003 £m
Surplus in scheme at beginning of the year	**154**	166
Current service cost	**(76)**	(73)
Contributions	**61**	58
Past service costs	**(12)**	(5)
Other finance income	**(10)**	(5)
Actuarial (loss)/gain	**(175)**	13
(Deficit)/surplus in scheme at end of the year	**(58)**	154

History of experience losses and gains For year ended 31st March 2004	2004	2003
Difference between expected and actual return on scheme assets:		
– Amount (£m)	**33**	198
– Percentage of scheme assets (%)	**1.2**	7.3
Experience (losses)/gains on scheme liabilities:		
– Amount (£m)	**(56)**	23
– Percentage of the present value of the scheme liabilities (%)	**(1.9)**	0.9
Total amount recognised in STRGL:		
– Amount (£m)	**(175)**	13
– Percentage of the present value of the scheme liabilities (%)	**(6.1)**	0.5

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31st March would be as follows:

Group net assets and reserves reconciliation	2004 £m	Restated[1] 2003 £m
Net assets as reported	**1,883**	1,970
Benefit of including net pension (liabilities)/asset (UK schemes)	**(41)**	108
Less SSAP24 pension prepayment net of deferred tax	**(85)**	(70)
Net assets restated for FRS17	**1,757**	2,008
Profit and loss account reserve as reported	**1,117**	1,189
Benefit of including net pension (liabilities)/asset (UK schemes)	**(41)**	108
Less SSAP24 pension prepayment net of deferred tax	**(85)**	(70)
Profit and loss account reserve restated for FRS17	**991**	1,227

[1] Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

27. Staff numbers and costs

The average number of persons employed by the group:

	2004 Number of heads	2004 Full time equivalents	2003 Number of heads	2003 Full time equivalents
Continuing operations				
Boots The Chemists	**58,732**	**36,715**	60,722	39,260
Boots Opticians and Dentalcare	**5,099**	**3,944**	5,842	4,601
	63,831	**40,659**	66,564	43,861
Boots Healthcare International	**3,434**	**3,307**	3,214	3,089
Boots Retail International	**900**	**863**	1,062	1,020
Group and other	**745**	**669**	652	580
Continuing operations	**68,910**	**45,498**	71,492	48,550
Discontinued operations – Halfords	**–**	**–**	3,868	2,361
Total	**68,910**	**45,498**	75,360	50,911

Total number of persons employed by continuing operations at 31st March 2004 was 69,259 heads, 45,145 full time equivalents (2003 68,740 heads, 47,050 full time equivalents).

The aggregate payroll cost was as follows:	2004 £m	2003 £m
Wages and salaries	**891.5**	919.8
Social security costs	**67.0**	61.6
Other pension costs	**33.4**	36.2
	991.9	1,017.6

28. Remuneration of directors and directors' shareholdings

Details of the remuneration, long term incentive plan interests, shareholdings, share options and pension entitlements of the directors are included in the directors' remuneration report on pages 32 to 41.

29. Related party disclosures

During the year the group had no material transactions with related parties other than £1.6m of additional funding to handbag.com limited a joint venture in which the group has a 50% interest in the share capital.

For details of investment in joint ventures see note 12.

Principal companies

	Principal activities	Percentage held by company	Percentage held by subsidiary undertakings
Company			
Boots Group PLC	Investing		
Subsidiary undertakings			
(incorporated in Great Britain)			
The Boots Company PLC	Manufacturing, marketing and distribution of healthcare and consumer products	100	
Boots Healthcare International Ltd.	Marketing consumer products		100
Boots Properties PLC	Property holding		100
Boots The Chemists Ltd.	Retail chemists		100
Boots Holdings (BHI) Ltd.	Holding Company		100

Percentages relate to holdings of ordinary share capital.

Group financial record

Profit and loss account

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Group turnover from continuing operations	**5,325.0**	5,085.4	4,797.8	4,707.5	4,699.7
Discontinued operations[2]	**–**	234.9	528.7	508.5	492.6
Total group turnover	**5,325.0**	5,320.3	5,326.5	5,216.0	5,192.3
Operating profit from continuing operations	**551.2**	532.3	590.8	559.7	527.1
Discontinued operations	**–**	22.5	54.3	41.9	48.5
Group operating profit before exceptional items	**551.2**	554.8	645.1	601.6	575.6
Share of operating loss of joint ventures	**(1.1)**	(13.2)	(20.9)	(23.1)	(8.4)
Total operating profit before exceptional items	**550.1**	541.6	624.2	578.5	567.2
Operating exceptional items	**–**	–	(16.4)	(50.5)	(22.0)
Total operating profit including share of joint ventures	**550.1**	541.6	607.8	528.0	545.2
Other exceptional items (non operating)	**36.4**	(152.6)	(26.5)	(38.4)	12.9
Profit on ordinary activities before interest and taxation	**586.5**	389.0	581.3	489.6	558.1
Net interest (payable)/receivable and similar items	**(5.5)**	103.4	13.2	1.1	5.9
Profit on ordinary activities before taxation	**581.0**	492.4	594.5	490.7	564.0
Taxation	**(167.7)**	(191.9)	(190.8)	(169.0)	(167.3)
Profit on ordinary activities after taxation	**413.3**	300.5	403.7	321.7	396.7
Minority interests	**(0.7)**	(0.5)	(0.3)	(0.2)	(0.2)
Profit for the financial year attributable to shareholders	**412.6**	300.0	403.4	321.5	396.5
Dividends paid and proposed	**(226.3)**	(230.7)	(240.6)	(231.6)	(221.7)
Retained profit for the financial year	**186.3**	69.3	162.8	89.9	174.8

Statement of total recognised gains and losses

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Profit for the financial year attributable to shareholders	**412.6**	300.0	403.4	321.5	396.5
Surplus/(deficit) on revaluation of properties	**–**	17.1	1.5	(1.8)	(3.3)
Impairment losses on revalued assets	**–**	–	–	(0.1)	(1.1)
Currency translation differences	**(14.8)**	7.5	(3.0)	6.1	(6.6)
Total recognised gains and losses for the year	**397.8**	324.6	401.9	325.7	385.5

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).
[2]Includes inter-segmental turnover.

Reconciliation of movements in shareholders' funds

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Total recognised gains and losses for the year	**397.8**	324.6	401.9	325.7	385.5
Dividends	**(226.3)**	(230.7)	(240.6)	(231.6)	(221.7)
New share capital issued (net of expenses)	**0.3**	(0.3)	0.7	0.9	0.5
Repurchase of shares	**(259.9)**	(462.8)	(45.9)	–	(95.4)
Goodwill released on disposal of businesses	**–**	349.3	22.4	17.9	–
Net (decrease)/increase in shareholders' funds	**(88.1)**	(19.9)	138.5	112.9	68.9

Balance sheet

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Intangible fixed assets	**281.5**	301.3	298.2	304.6	62.3
Tangible fixed assets	**1,499.4**	1,516.5	1,727.7	1,812.8	1,799.0
Investments	**74.7**	84.7	121.7	140.7	141.2
Net current assets	**587.0**	630.1	488.2	181.3	329.4
Creditors: Amounts falling due after more than one year	**(382.9)**	(401.8)	(480.0)	(451.9)	(489.2)
Provisions for liabilities and charges	**(177.2)**	(160.9)	(165.8)	(136.0)	(102.9)
Net assets	**1,882.5**	1,969.9	1,990.0	1,851.5	1,739.8
Represented by:					
Equity shareholders' funds	**1,881.3**	1,969.4	1,989.3	1,850.8	1,737.9
Minority interests	**1.2**	0.5	0.7	0.7	1.9
	1,882.5	1,969.9	1,990.0	1,851.5	1,739.8

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

Cash flow statement

	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Cash inflow from operating activities	637.8	582.3	722.4	664.4	753.7
Returns on investment and servicing of finance	(22.6)	75.0	40.7	(22.6)	(9.8)
Taxation	(166.2)	(196.7)	(139.2)	(167.4)	(154.4)
Capital expenditure and financial investment	(42.3)	(24.1)	(102.2)	(405.0)	(221.0)
Acquisitions and disposals	(2.2)	358.1	3.9	(32.7)	(2.6)
Equity dividends paid	(229.1)	(238.3)	(234.5)	(224.0)	(216.3)
Cash inflow/(outflow) before use of liquid resources and financing	175.4	556.3	291.1	(187.3)	149.6
Management of liquid resources	53.5	15.8	(234.3)	305.2	(283.6)
Financing	(281.2)	(511.8)	(55.2)	(71.4)	172.8
(Decrease)/increase in cash in the year	(52.3)	60.3	1.6	46.5	38.8

Statistics

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Sales growth from continuing operations	**4.7%**	6.0%	1.9%	0.2%	7.0%
Return on shareholders' funds before exceptional items	**19.1%**	19.0%	23.8%	22.9%	23.9%
Basic earnings per share	**52.9p**	35.8p	45.8p	36.6p	44.8p
Basic earnings per share before exceptional items	**48.2p**	45.0p	49.8p	45.2p	45.1p
Net debt (£m)	**(148.5)**	(51.5)	(146.3)	(410.2)	(237.6)
Capital expenditure (£m)	**214.9**	149.2	173.6	241.6	252.8

Return on shareholders' funds is calculated as profit on ordinary activities before exceptional items and after taxation as a percentage of opening shareholders' funds.

Shareholder value

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Dividend per share	**29.8p**	28.6p	27.4p	26.3p	25.2p
Dividend cover before exceptional items	**1.7**	1.6	1.8	1.7	1.8
Share price:					
Highest	**753p**	725p	694.5p	649p	884p
Lowest	**525p**	492p	565p	479p	457p

[1]Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

Segmental financial record – continuing operations

Turnover, including inter-segmental turnover

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Boots The Chemists	**4,475.7**	4,283.4	4,072.5	3,989.0	3,983.5
Boots Opticians and Dentalcare	**241.6**	258.6	228.8	203.6	198.7
	4,717.3	4,542.0	4,301.3	4,192.6	4,182.2
Boots Healthcare International	**504.6**	460.4	407.3	362.0	327.1
Boots Retail International	**43.0**	37.0	40.3	42.1	32.5
Group and other	**91.5**	79.8	74.8	137.0	180.9
Discontinued operation – Halfords	**–**	234.9	528.7	508.5	492.6
	5,356.4	5,354.1	5,352.4	5,242.2	5,215.3
Inter-segmental turnover	**(30.0)**	(31.7)	(22.0)	(20.9)	(20.6)
Less joint venture turnover	**(1.4)**	(2.1)	(3.9)	(5.3)	(2.4)
Group turnover excluding inter-segmental and joint venture	**5,325.0**	5,320.3	5,326.5	5,216.0	5,192.3

Operating profit before operating exceptional items

	2004 £m	Restated[1] 2003 £m	Restated[1] 2002 £m	Restated[1] 2001 £m	Restated[1] 2000 £m
Boots The Chemists	**531.1**	568.4	605.2	579.8	557.0
Boots Opticians and Dentalcare	**(5.1)**	(30.9)	(34.4)	(15.0)	5.1
	526.0	537.5	570.8	564.8	562.1
Boots Healthcare International	**80.6**	70.1	66.7	59.6	32.5
Boots Retail International	**(10.4)**	(22.3)	(24.1)	(43.4)	(33.3)
Group and other	**(46.1)**	(66.2)	(43.5)	(44.4)	(42.6)
Discontinued operation – Halfords	**–**	22.5	54.3	41.9	48.5
Group operating profit	**550.1**	541.6	624.2	578.5	567.2

[1] Restated on adoption of FRS5 Application Note G on revenue recognition (see note 1(iv)).

Shareholder information

Annual general meeting
The annual general meeting will be held at 11.00 am on Thursday, 22nd July 2004 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice.

The proposed date of the annual general meeting next year is 21st July 2005.

Dividend payments
The proposed final dividend (if approved) will be paid on 13th August 2004 to shareholders registered on 11th June 2004. Most shareholders (excluding those in Canada and the USA) will have the opportunity to reinvest their cash dividend in existing shares bought on the London Stock Exchange through a dividend reinvestment plan. All applications to join that plan or amend existing instructions under it must be received by the company's registrars by 5.00 pm on 23rd July 2004.

The expected dividend payment dates for the year to 31st March 2005 are:

Interim dividend	February 2005
Final dividend	August 2005

Results
For the year to 31st March 2005:

Interim results announced	November 2004
Interim statement circulated	November 2004
Preliminary announcement of full year results	May 2005
Annual report circulated	June 2005

Capital gains tax
For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services
Details of special low cost dealing services in the company's shares may be obtained from:

– **Hoare Govett Limited** (Tel: 020 7678 8300)

Hoare Govett Limited are regulated by the Financial Services Authority and are a member of the London Stock Exchange and have approved the references to themselves solely for the purposes of section 21(2)(b) of the Financial Services and Markets Act 2000 only.

Registrar and transfer office
Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH.
Tel: 0870 702 0148.

Company secretary and registered office
M J Oliver, Boots Group PLC, Nottingham NG2 3AA. Tel: 0115 950 6111.

Boots Group PLC is registered in England and Wales (No. 4452715).

Analysis of shareholders at 31st March 2004:

Shareholding range	Number	%	Total holding	%
1–500	45,235	42.37	9,996,773	1.29
501–1,000	24,496	22.94	18,564,901	2.40
1,001–10,000	34,739	32.54	87,359,164	11.26
10,001–100,000	1,746	1.64	45,545,966	5.87
100,001–1,000,000	424	0.40	138,393,797	17.83
Over 1,000,000	122	0.11	476,046,996	61.35
	106,762	100.00	775,907,597	100.00

Unsolicited mail
The Company is obliged by law to make its share register publicly available and as a consequence some shareholders may receive unsolicited mail, including from unauthorised investment firms. For more information on unauthorised investment firms targeting UK investors, visit the website of the Financial Services Authority at www.fsa.gov/consumer. If you wish to limit the amount of unsolicited mail you receive contact:

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Boots Group PLC
1 Thane Road West
Nottingham NG2 3AA
Tel: 0115 950 6111

www.boots-plc.com